BUSINESS WEEK

December 16, 1961

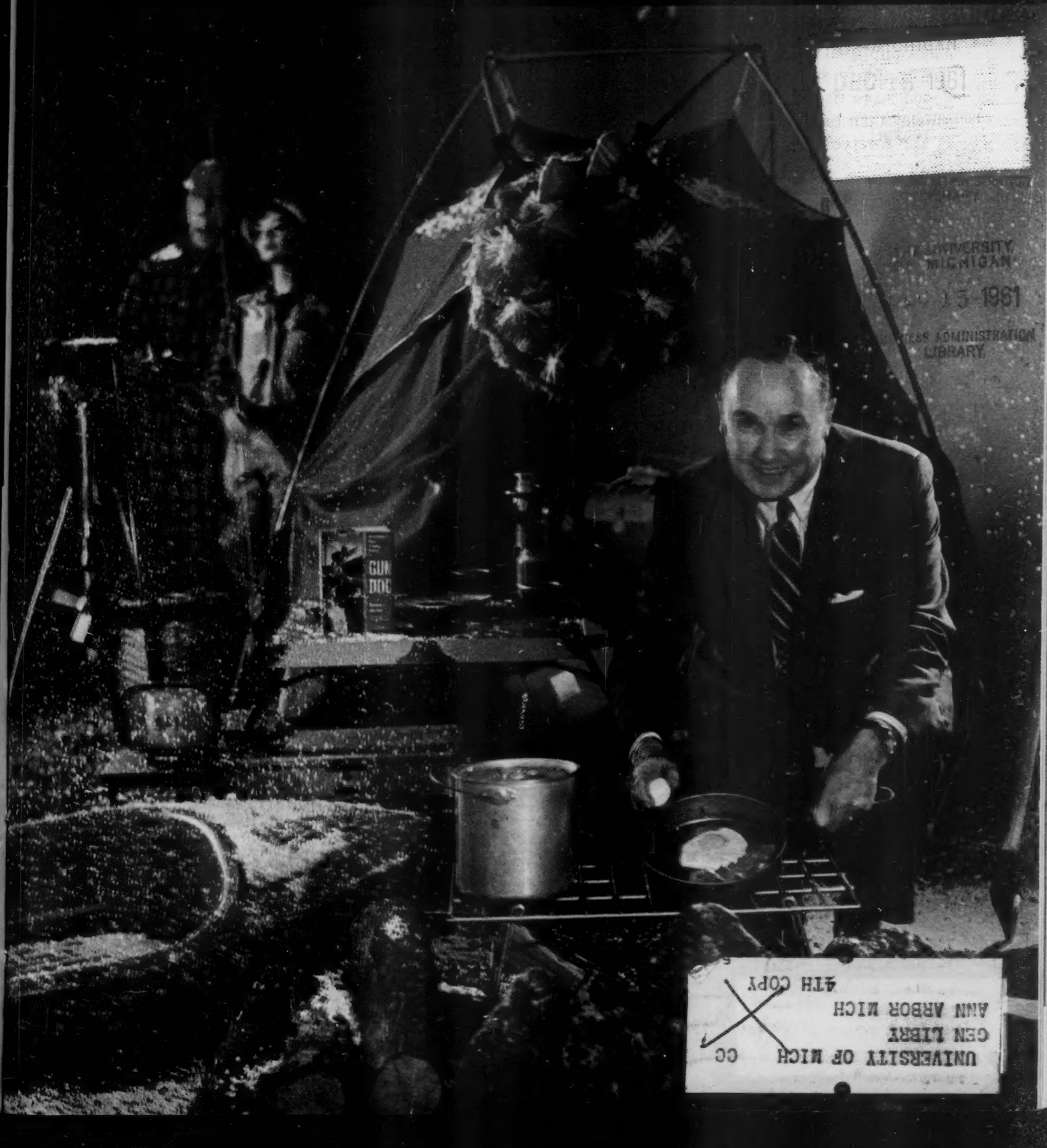
Fifty cents

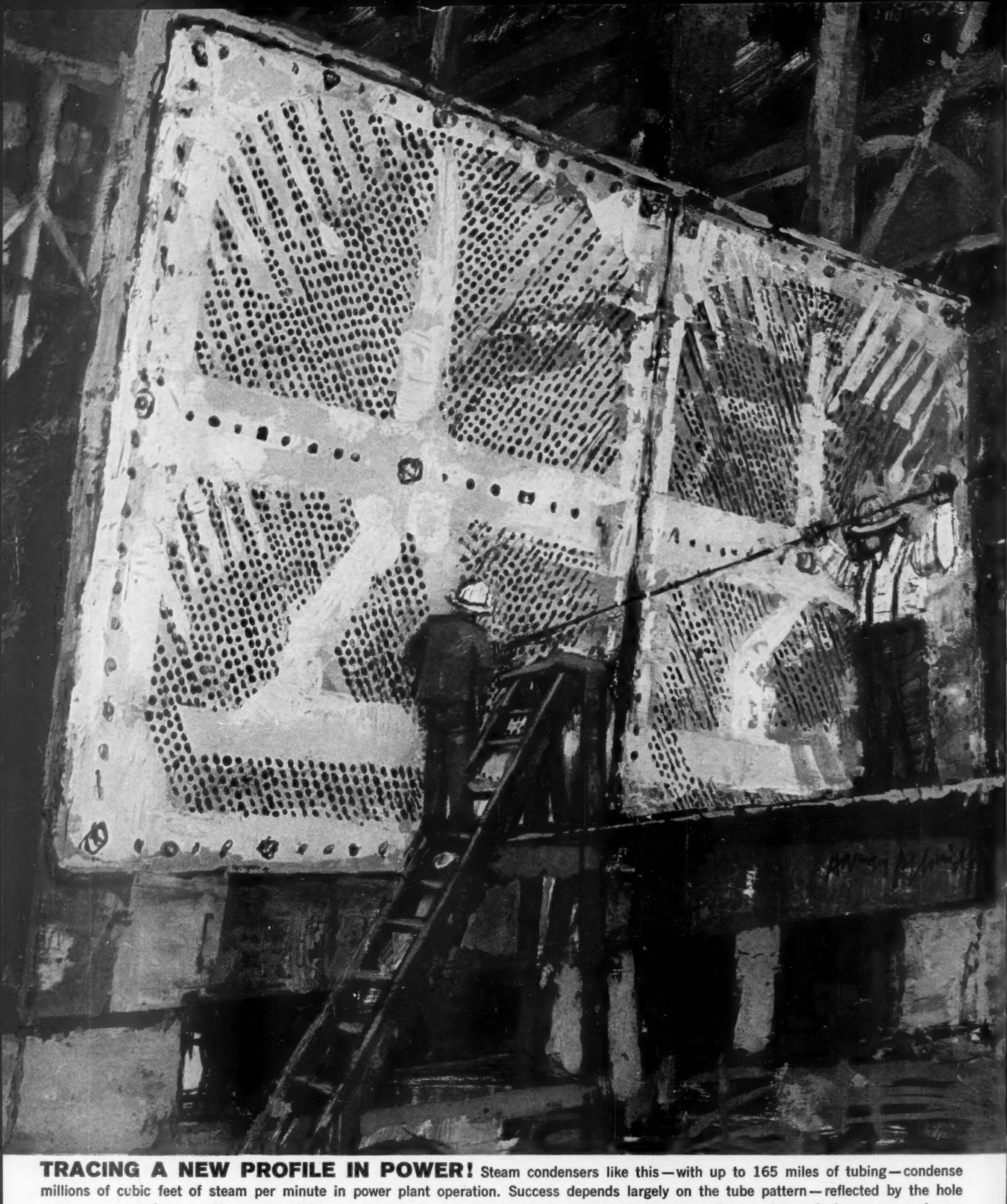
A McGraw-Hill Publication

How the states try to lure industry

Page 126

Below: Abercrombie & Fitch's J. H. Ewing. His policy of catering to sportsmen's needs pays off in Christmas trade [Marketing]





In BUSINESS this WEEK

December 16, 1961

General business

The departments

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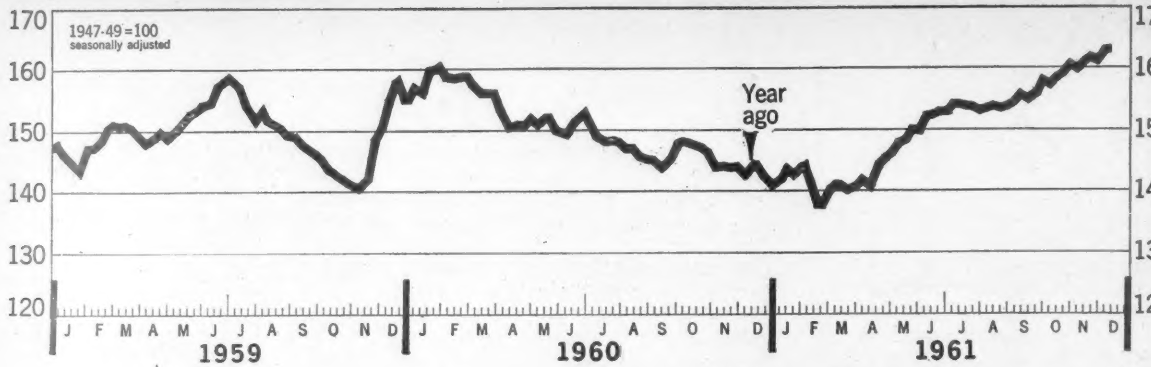
Number 1685

Figures of the week



	1953-55 average	Year ago	Month ago	Week ago	§ Latest Week
BUSINESS WEEK index chart	133.3	144.8	161.5	163.3r	163.5*
Production					
Steel ingot [thous. of tons]	2,032	1,396	2,046	2,073r	2,158
Automobiles	125,553	135,328	152,286	164,834r	161,700
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	$52,412	$75,886	$75,362	$69,788	$63,693
Electric power [millions of kilowatt-hours]	10,819	15,013	15,520	15,954	16,084
Crude oil and condensate [daily av., thous. of bbl.]	6,536	7,152	7,178	7,198	7,397
Bituminous coal [daily av., thous. of tons]	1,455	1,257	1,453	1,492r	1,478
Paperboard [tons]	247,488	316,846	344,729	331,983	338,958
Trade					
Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	53	60	55	56
Carloadings: all others [daily av., thous. of cars]	47	34	44	40	40
Department store sales index [1947-49=100, not seasonally adjusted]	121	231	154	185	237
Business failures [Dun & Bradstreet, number]	198	360	336	356	295
Prices					
Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	87.4	88.3	89.3	90.0
Foodstuffs, daily index [BLS, 1947-49=100]	90.5	75.8	75.0	76.7	77.1
Print cloth [spot and nearby, yd.]	19.8¢	17.9¢	17.8¢	17.8¢	17.8¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.2	185.4	185.4	185.4
Scrap steel composite [Iron Age, ton]	$36.10	$28.50	$32.83	$34.17	$34.50
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	30.000¢	31.000¢	31.000¢	31.000¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	24.0¢	24.0¢	24.0¢
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	$2.34	$2.03	$2.10	$2.14	$2.19
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	30.16¢	33.60¢	33.58¢	33.58¢
Wool tops [Boston, lb.]	$1.96	$1.65	$1.81	$1.81	$1.81
Finance					
500 stocks composite, price index [S&P's, 1941-43=10]	31.64	56.67	71.29	71.81	72.26
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.11%	5.11%	5.10%	5.10%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2⅛%	3¼%	2⅞%	3⅛%	3⅛%
Banking Millions of dollars					
Demand deposits adjusted, reporting member banks	††	60,611	62,388	63,906	63,369
Total loans and investments, reporting member banks	††	108,724	116,899	117,327	117,116
Commercial, industrial and agricultural loans, reporting member banks	††	32,865	33,219	33,344	33,252
U. S. gov't guaranteed obligations held, reporting member banks	††	29,787	33,770	33,932	33,813
Total federal reserve credit outstanding	26,424	28,594	29,760	30,510	30,631
Gold stock	21,879	18,172	17,276	16,975	16,975

Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Employment [in millions]	November	62.2	67.2	67.8	67.3
Unemployment [in millions]	November	2.5	4.0	3.9	4.0
Wholesalers' inventories [seasonally adjusted, in billions]	October	$10.6	$13.2	$13.5	$13.5
Retailers' inventories [seasonally adjusted, in billions]	October	$21.4	$25.4	$24.7	$24.8
Exports [in millions]	October	$1,290	$1,744	$1,631	$1,890
Imports [in millions]	October	$902	$1,157	$1,176	$1,340
Retail sales [seasonally adjusted, in billions]	October	$14.5	$18.4	$18.6	$19.3

* Preliminary, week ended December 9, 1961.
†† Not available. Series revised.

r Revised.
§ Date for 'Latest Week' on each series on request.

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READERS REPORT

Unused inventions

Dear Sir:

Your article on the Chicago Marina City Project [BW Nov.18 '61,p156] was most interesting. The Linden crane, a vital part of the modern construction methods adopted for this project, was invented by Mr. Elis Linden (of Sweden, not Denmark, incidentally). Here in Sweden, it has achieved something like a breakthrough in labor-saving construction. . . .

Swedes are among the most prolific inventors anywhere. But due to a chronic shortage of capital and to certain other factors, only a small fraction of the good, commercially promising inventions are ever exploited by Swedish industry.

Consequently, American (and other) business could profit by establishing suitable contacts with Swedish inventors, via their organizations or via consultants specializing in this type of liaison work. Inventions available range from plastic handles to advanced electronic systems.

Dag Hornell
Swedish Inventors' Assn.
Malmo, Sweden

Lethal limerick

Dear Sir:

About those almost lethal fallout pills [BW Dec.2'61,p129]:

There once was a young man named Bill
Who swallowed a fallout pill.
The doctor said, "Cough,"
The pill went off
And they found his head in Brazil.

Shades of the Earthquake Mills of the 18th Century!

John E. Ullmann
Professor of Management
Hofstra College
Hempstead, N. Y.

Technical point

Dear Sir:

In a generally well-informed article, "An old dream stirs furious rivalry" [BW Dec.2'61,p66], there is one statement that should be corrected: "Technical Studies . . . was formed by a group of top U. S. construction companies, economic consultants, and Wall Street investment houses."

No construction company, sup-

plier, or economic consultant now owns or has owned a single share, or indeed any proprietary interest whatsoever, in Technical Studies, Inc. Technical Studies, Inc., is a very closely held corporation in which over three-quarters of the stock is owned by the three men who founded the company, Frank P. Davidson, Arnaud de Vitry d'Avaucourt, and Cyril C. Means, Jr., and the remainder is largely owned by American Research & Development Corp., and the American investment and commercial bankers (and their nominees) who are the company's financial advisers. . . .

Cyril C. Means, Jr.
Executive Vice-President
Technical Studies, Inc.
New York, N. Y.

The patent crisis

Dear Sir:

I believe that Business Week has done a public service in laying before American executives the problems of the Patent Office [BW Nov.25'61,p143]. A wide understanding of these problems among the business community is important to their solution.

I want to amplify only one point in your report: Your statement that the U. S. will not consider "joining up" with the proposed Common Market patent system so long as I am Commissioner of Patents must be taken not as opposition in principle, but rather as reflecting my guess about how quickly that plan will develop. It is far too early to form any judgment about what relationship, if any, the U. S. should have to the scheme. In fact, no formal announcement of the Common Market plan has yet been made public.

David L. Ladd
Commissioner of Patents
Washington, D. C.

Rarest bird

WHOA THERE. RE ARTICLE ON BANK ECONOMISTS [BW DEC.2'61,P132], ARIZONA ENTERS VIGOROUS PROTEST AGAINST OMISSION OF OUR OUTSTANDING HERB LEGGETT WHO IS RAREST BIRD OF ALL, NAMELY BANK ECONOMIST WITH SENSE OF HUMOR AND BOTH FEET ON GROUND AT THE SAME TIME.

LARRY MEHREN
VALLEY NATIONAL BANK
PHOENIX, ARIZ.

Business outlook

BW

December 16, 1961

Capital outlays to rise, but will they hold up?

Now that consumer demand has taken the expected turn for the better, about the only big question overhanging 1962 is business spending.

Immediately ahead, the prospect looks favorable. The joint survey by the Securities & Exchange Commission and Dept. of Commerce forecasts a good gain for next year's first quarter (page 26).

Whatever qualms there are, therefore, concern later developments.

Present corporate budgeting indicates capital outlays at an annual rate of $36½-billion at the start of 1962. That would be up from $35.9-billion in 1961's final quarter and $34½-billion for the full year.

Yet McGraw-Hill's fall survey found management planning to spend only $35.8-billion-plus for all of 1962 [BW Nov.11'61,p70].

Thus, unless budgets for plant and equipment are revised upward as we go along, there would have to be tapering off later in 1962.

Demand may soon press capacity

Fortunately, prosperity has a way of breeding its own improvement in business budgets for modernization and expansion.

Thus the sharp upswing in consumer demand, particularly for automobiles and other hardgoods, is a most welcome portent.

There is every reason to hope retail sales, bolstered by rising personal income, will go on rising. **Consumer demand may push factories close to maximum efficiency levels much sooner than expected.**

That's the surest possible spur to higher capital spending—the sure way to end those lingering fears of having to live with over-capacity.

Retail volume breaks records

Retail sales, for their part, now are coming back at a rate fit to astonish even those who have been most optimistic.

October virtually equaled the previous monthly record (all figures seasonally adjusted) and jumped about $500-million ahead of the desultory average of earlier months this year.

And this week the Commerce Dept.'s flash report put November at an adjusted $19¼-billion that topped October by nearly half a billion and was $900-million, or 5%, ahead of the same month last year.

These last two months have set a trend that assures 1961 of a new retail sales record modestly higher than 1960's $219.6-billion.

More than that, November's retail volume was at an annual rate of better than $231-billion. Thus, if retail sales simply held this rate next year, **they would top 1961's record by about $10-billion.**

But there's no reason to suppose that November marked the top. Next year's store volume should go on climbing—though obviously the rate of gain isn't likely to be nearly so great as in the last two months.

Final quarter—year's bright spot for merchants

Fourth-quarter retail results will, of course, be the high spot of the year—a welcome relief after January-through-September dullness.

With even a moderately good December, **the final quarter should weigh in with about $61¼-billion for all types of retail stores** (without seasonal adjustment), up more than $2-billion from the like period in 1960.

With a really wholehearted showing for the Christmas season, the quarter

would run closer to $\$61\frac{3}{4}$-billion. **Either way, the gain for the final three months will be just about the margin by which the full year beats 1960.**

Durables add zest to store sales

Gains in retail sales in November were pretty well across the board.

Nondurable goods, which had been doing relatively well all year, posted an excellent gain and a new monthly peak (seasonally adjusted).

Yet the most gratifying improvement, from the standpoint of the general economy, was that in durable goods. Hardgoods had nosed above a year ago in October, but they shot ahead in November.

Volume in autos and automotive products last month was the highest since June, 1960—without even allowing for seasonal characteristics. And it was better than 10% ahead of the same month last year.

The improvement was not limited to autos however. **Furniture and appliance sales pulled a good, fat 5% ahead of last year, too.**

More jobs, more pay bolster workers' incomes

Steady improvement in employment conditions since early this year (page 27) obviously underlies the improvement in incomes and retail sales.

Non-farm payroll employment in November remained at the October level of 55.1-million. **This set a new November record, half a million higher than a year earlier.**

In manufacturing, the shifts from October to November were largely seasonal in character except for automobiles. There the gain was much better than normally could be expected for this time of year.

Bolstering purchasing power (but holding down the actual number of jobs available) was **an unusual lot of overtime last month.**

Factory workers averaged 40.6 hours a week, a figure rarely equaled in recent years and topped in only one month since 1956. (In automobiles, particularly, this reflects a determination to avoid the high cost of layoffs imposed by labor contracts signed last fall.)

Long hours mean high pay, of course; average weekly wages in manufacturing last month were a record $95.82, the Bureau of Labor Statistics Reports. That was about $3 a week better than last summer and $6.61 higher than workers were drawing in November last year.

Real rise starts in steel output

Now comes the beginning of the real upturn in steel operations.

The present improvement rests mainly on actual needs. **But increasingly it will reflect stockpiling to safeguard against a possible strike.**

This has been an erratic year for steel—rising briskly from January through April, bobbling at mid-summer, and stabilizing at a little more than 2-million tons a week from the end of August through November.

But the first full week of December saw a change. **Output rose to 2,158,000 tons,** up better than 4% over the week before.

Unfortunately, steel operations from now on won't be viewed as all-sheet-and-a-yard-wide as an economic indicator.

Even the lush profits thrown off by high operations in the first half of 1962 will be discounted; **everyone is on notice that the third quarter will be lean, strike or no strike.** And the presumption is that costs will go up an unpredictable amount, whatever the settlement.

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BUSINESS WEEK

Liberalizing trade

Kennedy's big gamble

The President's determined fight for freer trade policies will have an effect on all other issues next year

Giving the trade proposal the top priority may mean, for example, that tax reform and medical aid must wait

Some measure of relief must be given to industries hurt by the plan. The question is how much, and in what form

Pres. Kennedy's decision to fight for drastic liberalization of U. S. trade policy promises to become the issue that dominates the second year of his Administration. Increasingly, as the battle lines are drawn, implications of the new trade program will govern the stand that Kennedy takes on other subjects—taxes, fiscal policy, wage and price restraint, economic growth.

In some cases, Kennedy's endorsement of freer trade will provide a clinching argument for proposals made earlier but not acted on. In others, it will create dilemmas that may force a retreat from stands already taken.

The final outcome, however, will not be determined by pure logic. It will result from that complex interplay of pressures, bargaining, threats, and cajolery that is the American political process.

Kennedy will have to do some elaborate horsetrading if he is to get his program adopted, even in principle, before the Reciprocal Trade Act expires next summer.

I. The grand strategy

As White House strategists see it, the Administration's trade program serves as a splendid capstone for the whole structure of domestic economic policies that Kennedy developed during his first year. Their reasoning goes like this:

The basic objectives of the Administration have been to foster economic growth in the U. S. without incurring serious inflation. This was the reasoning behind the proposed tax incentive for capital investment. It was the reason for maintaining a generally easy money policy, at least while unemployed manpower and resources still remained. And it was the reason that the President has appealed to industry and labor for voluntary restraint concerning wage and price increases as recovery advanced.

Now the goal of growth without inflation becomes more important than ever. The rise of an industrial "House of Europe" to levels that are highly competitive with the U. S. confronts this country with a radically new situation. The U. S. must adjust to it—like it or not. The rapid growth of the Common Market, with its potential expansion to include Britain, makes that adjustment urgent.

The way to adjust is to bring down the tariff barriers and let U. S. industry fight for its markets, at home and abroad. Instead of retreating behind tariff walls, the U. S. must meet the new industrial strength of Europe with new strength of its own —with more growth, more gains in productivity, better control of costs. At least, this is how the Administration sees it.

Political side. So goes the argument in terms of economics. Politicians note an additional aspect. From the beginning, one of Kennedy's greatest problems has been to stop the wage-price spiral without losing the support of labor. Foreign competition—under a system of freer trade—could have the byproduct effect of putting a damper on U. S. wage increases.

Looked at this way, the new trade program becomes a powerful argument for pushing many of the proposals that Kennedy already has made. In the coming session of Congress, the Administration will make the most of this opportunity. But the drive for trade liberalization also creates problems, and some of them may be hard to deal with.

II. Inflation and the budget

One of these problems is the budget. In fiscal 1962, the Kennedy Administration is running a deficit. For fiscal 1963, it has promised to strike a balance, but this promise was made on the assumption that business would be running at high levels throughout the period. If business should falter after the turn of the year, would the Administration feel free to go back to deficit financing to give the economy a lift?

In the past, it would have. But in a world heading toward relatively free trade, the question of comparative costs is crucial. Anything that might contribute to inflation in the U. S. would weaken our competitive position and complicate the already troublesome balance-of-payments situation.

Moreover, to the international financial community, the balanced budget has become a symbol of the Administration's determination to thwart inflation and shore up the dollar. A switch back to deficits might well start a new, dangerous

run on our gold stock. And if it came at a time when U. S. tariffs were about to be cut, doubts about the ability of U. S. industry to compete with European imports would contribute to the panic.

III. Prices and wages

A somewhat similar problem arises in the price and wage area. The clearest need that comes out of a freer trade policy is to hold down the prices of U. S. goods. Currently the nation is enjoying price stability, but if prices again press upward as the economic recovery matures, the President will be obliged to do all he can to hold them down. Since he is pledged to avoid price and wage controls, he would have to rely heavily on persuasion.

Friendly persuasion. A little of this jawbone treatment was tried last fall on the steel industry to avert what was considered the possibility of a hike in prices. The industry did not raise prices, but how much it was influenced by the President's appeal is an open question.

Holding down prices, however, is not going to be possible unless wage increases are kept in line with the rise of productivity. The question is: Will persuasion from the White House, plus the anticipated bite of foreign competition, be sufficient to do this?

At the AFL-CIO national convention in Miami Beach last week, Kennedy declared: "Labor must demonstrate its responsibility in helping to keep over-all wage movements in line with increases in productivity." But the next day Labor Secy. Arthur Goldberg softened the tone of this warning by assuring labor that there is "plenty of room" for higher wages within the limits of rising productivity.

Before adjournment, the AFL-CIO unanimously adopted two resolutions calling for "wage advances as a vital means of increasing inadequate consumer purchasing power."

IV. Stimulating investment

It is in the area of investment that Administration strategists see their greatest opportunity to tie the trade liberalization program to other objectives. But here, too, there are obstacles.

Anything that will stimulate new investment and plant modernization should help increase productivity and hold down U. S. costs. This argument will put added push behind the Administration's proposal for a tax credit as an incentive for new investment. The tax credit was proposed at the start of the Congressional session last year, but Congress took no action.

Bottleneck. At the moment, the tax credit bill is tentatively scheduled as the first item of business for the House Ways & Means Committee in January, and the Administration is hopeful that it will get a warmer reception this time. But this is where the hitch comes.

Ways & Means is also the committee that must deal with the trade program and with the program for medical aid, another project that is dear to the Administration's heart. Unless opposition to the tax program evaporates, it may prove impossible to get three such controversial measures through one committee in a single session. In that case, the Administration will have to decide on its priorities. And if foreign trade gets the highest rating—as it almost certainly will—taxes and medical aid may have to wait.

V. The hardship cases

Increasingly, it is evident that the Administration's commitment to a freer trade policy will force it to reconsider the stands it has taken on a variety of such general problems. But the fight to get the trade liberalization program adopted will not turn on general problems as much as on specific issues. The final shape of the legislation will depend on how effectively Kennedy can placate or override the opposition of industries and areas that stand to suffer directly from lowering of tariffs.

Some concessions. Implicit in the new policy is the idea that some people are going to get hurt. The Administration takes it for granted that it will face bitter opposition from congressmen whose districts depend on such industries as oil, metals, minerals, pottery, glass, textiles, plywood. It is prepared to make at least some concessions to get its program through.

In his first proposal, Kennedy promised to help soften the blow of tariff reduction through "trade adjustment assistance"—retraining for workers, perhaps loans to help injured industries convert to new lines, faster write-offs on new equipment, probably some temporary tariff relief to ease the changeover.

But this will not be enough to silence the opposition. In at least some cases, the Administration will have to grant exceptions and continue protection indefinitely for industries that see themselves destroyed as tariffs come down.

The question that now faces the Administration is just how many of these concessions it can make and still have an effective program.

New queen of seas prepares for first voyage

On sea trials this week, the S. S. France, the French Line's new giant, is preparing for her maiden voyage from Le Havre to New York Feb. 3. The $80-million, 2,000-passenger liner, longest in the world, will replace the retired Liberte [BW Nov. 18'61,p30]. The France is dropping cabin class and upping the price of tourist berths, in line with the growing reliance on a hard-core luxury market for sea travelers.

Katanga fight stirs hot debate

U.S. backs U.N. move in Congo as best hope, but Britain and France fear leftist gains

Irish U. N. troops prepare to board a U. S. Air Force Globemaster transport, to be flown to Elisabethville to reinforce U. N. troops battling against Katanga forces.

Controversy is growing over whether the U. N.'s attack on Katanga adds up to (1) a crusade to unify and stabilize the Congo or (2) a scheme to unseat that secessionist province's anti-Communist leader, Pres. Moise Tshombe. Emotionally, the dispute is highly charged.

Favoring action against Katanga are the U. S., the Soviet Union, and virtually all the underdeveloped countries, especially the extremist African nations. Opposed are Britain and France—two of our main allies.

U. N.'s case. Western officials favoring the U. N. attack argue this way:

The best hope for an eventually stable, non-Communist Congo lies in immediately bringing Katanga Province into the central government in Leopoldville, now under the rule of a "moderate" neutral, Premier Cyrille Adoula.

Since Katanga is the wealthiest of the Congo's provinces, it is needed to make the whole nation economically viable. Reunited with the rest of the Congo, Katanga no longer would be an issue for exploitation by the Congo's pro-Communist extremists. This group now calls Adoula weak for allowing Katanga to remain independent.

If Adoula's hand is strengthened by the acquisition of Katanga, this argument goes, both he and the U. N. will be in a stronger position to end the de facto—if unofficial—secession of another part of the Congo, the Stanleyville area. The key politician there is Antoine Gizenga, successor of the slain Patrice Lumumba, the pro-Communist who was the Congo's first premier.

Contrary views. The reasoning of the countries backing the U. N. action doesn't hold water with the British, French, Belgians and even some Americans. The argument of those who don't accept the pro-U. N. reasoning goes like this:

Cyrille Adoula's central government is a coalition including a powerful Lumumbist group, as indicated by Gizenga's appointment as vice-premier and the large number of other Lumumbists in high positions. When the U. N. prematurely announced last September that it had control of Elisabethville, Katanga's capital, Adoula promptly appointed as Katanga's chief administrator an avid Lumumbist and Moscow-liner, Egide Bochely-Davidson.

At the same time, Katanga's Tshombe, with any faults he might have, is anti-Communist and cooperative with the Western interests that have investments in Katanga. From the beginning, he has resisted the U. N.'s intervention in Katanga.

It's true that under Tshombe, Katanga has had tribal fighting and violent incidents. And Tshombe has had some trouble controlling his gendarmes. But on balance Katanga has achieved far more stability than any other region in the Congo. Tshombe staunchly opposes not only the Lumumbists in the Congo, but other extreme leftwing groups elsewhere in Africa.

Negotiation. In addition, those questioning the U. N. view point out, Tshombe has stated that he wants to bring Katanga back into the Congo on the basis of a loose federation, that secession is injurious to Katanga's economy as well as to the Congo's. Earlier this year, Tshombe flew to Coquilhatville to negotiate an agreement with members of the central government. Instead of negotiating, the central government arrested him.

What Britain and France favor is some arrangement whereby the fighting will stop forthwith, and the two sides will be brought together to negotiate peacefully, with guarantees for the safety of all negotiators. This way, the Congo's economic problems would be alleviated to some degree. And a coalition with Tshombe would have leverage against the powerful pro-Communist element that probably could take over the Leopoldville government at any time it wishes.

Beyond that, British and French say, the U. N. attack illegally oversteps the U. N.'s authority.

Soviet stand. The Soviet Union, of course, has supported—in fact, demanded—an end to Katanga's secession and Tshombe's downfall. Clearly, Moscow sees Katanga's continued independence as a roadblock to Soviet hopes of gaining influence in—and ultimately Communist control of—the entire Congo.

Aims of action. Acting U. N. Secy. Gen. U Thant has denied that the U. N.'s purpose is to smash the military strength of Pres. Tshombe and thus force a political solution on the Congo. Instead, he says, the military aim is merely to establish freedom of movement for the U. N. in Ka-

tanga and oust the province's 200 or so foreign mercenaries and political advisers. The political aim is unity.

The scale of the current operations, however, strongly suggests that, whatever the stated objectives, the U. N. could not now avoid bringing about the end of Tshombe's present rule in Katanga and seriously disrupting the economy.

Military situation. In control of the air over Katanga, U. N. bombers are reported to have damaged mining installations, hydroelectric facilities, and rail lines. On the ground, U. N. forces at midweek were meeting determined opposition. Galvanized by white mercenaries, the Katanga Army fought effectively. And, inflamed by the U. N. action, including the bombardment of a hospital, virtually the entire population in Elisabethville was hostile.

After 18 months of frustration and occasional humiliation, the U. N. had hoped for a quick, clean victory. But Katanga's resistance prolonged the fighting.

Battle of statements. Besides this military jolt, statements by U. N. officials in New York have provided fresh ammunition for the organization's detractors.

First, Acting Secy. Gen. Thant dispatched a cable to the Brussels government listing charges against the Belgian mining company that dominates Katanga's economy, Union Miniere du Haut-Katanga. Among his allegations, Thant said the company had never denied putting mercenaries nominally on its payroll. In actual fact, the company had denied this—repeatedly [BW Dec.9'61,p60]. It also had denied the other charges. In his cable, Thant offered no evidence.

Then, at a news conference this week, the U. N.'s military adviser, Brig. I. J. Rikhye, disclosed that French mercenaries had a last-ditch plan to blow up Union Miniere's installations. This did not jibe with earlier statements by U. N. officials who had accused Union Miniere of recruiting, paying, and harboring the mercenaries.

To explain this apparent inconsistency, U. N. officials suggested that the mercenaries, although transported to Katanga by the company, suddenly put devotion to an independent Katanga above their obligation to the company. All along, the company has denied any connection with mercenary troops.

At midweek, it looked as though the U. N. might well gain the upper hand in Katanga. But even that would not solve the Congo's complex problems, nor the controversy stirred by the U. N. action.

Capital spending swings higher

[Expenditures for new plant and equipment by U.S. business]

Quarterly, seasonally adjusted at annual rates [billions of dollars]	1961 Jan.-Mar. [actual]	Apr.-June [actual]	July-Sept. [actual]	Oct.-Dec. [planned]	1962 Jan.-Mar. [planned]
Manufacturing	**$13.75**	**$13.50**	**$13.65**	**$14.00**	**$14.55**
Durable goods industries	**6.50**	**6.20**	**6.10**	**6.35**	**6.70**
Iron and steel	1.35	1.05	1.10	1.10	1.30
Nonferrous metals	.30	.25	.25	.25	.25
Electrical machinery	.70	.70	.70	.70	.70
Other machinery	1.15	1.10	1.05	1.10	1.20
Autos, trucks, and parts	.70	.80	.70	.75	.75
Transportation equipment	.40	.40	.35	.40	.40
Nondurable goods industries	**7.25**	**7.30**	**7.55**	**7.65**	**7.85**
Food and beverages	.95	.90	1.00	1.00	1.00
Textile-mill products	.50	.45	.50	.55	.55
Paper and alied products	.75	.70	.65	.65	.70
Chemicals and allied products	1.50	1.65	1.65	1.65	1.70
Petroleum and coal products	2.70	2.75	2.85	2.85	2.80
Mining	**.95**	**1.00**	**1.00**	**1.00**	**1.00**
Railroads	**.70**	**70**	**.65**	**.60**	**.70**
Transportation, [other than rail]	**1.75**	**1.80**	**1.90**	**1.90**	**1.80**
Public utilities	**5.35**	**5.50**	**5.65**	**5.70**	**5.50**
Commercial and other	**11.30**	**11.05**	**11.85**	**12.65**	**12.90**
Total all business	**33.85**	**33.50**	**34.70**	**35.90**	**36.50**

Data: Dept. of Commerce; SEC

The prospects are brighter than expected

Latest survey of capital spending plans indicates that 1962 outlay could go even higher than the slightly earlier McGraw-Hill Economics Dept. report suggested

The rise in capital spending by business is living up pretty much to the expectations of economists, the government's latest survey shows (table). In the first quarter of next year, such spending will hit a seasonally adjusted annual rate of $36.5-billion, says the new report of the Commerce Dept.-Securities & Exchange Commission.

The Commerce-SEC survey was made in late October and in November. It indicates that even if spending failed to rise above the first-quarter level throughout 1962, outlay would still be more than $600-million above the estimate of the McGraw-Hill Economics Dept., based on a survey in October [BW Nov.11'61, p70]. And the odds are that the capital spending curve will continue to rise.

Commerce officials note that the upswing in capital spending during this cycle started sooner after gross national product touched its low point, a year ago, but has risen more slowly, quarter by quarter. In earlier postwar cycles, the spending rise was slower to start but went up more sharply when it finally did start.

Deceptive taper? The Commerce-SEC report suggests that the rate of increase in spending from one quarter to the next may be tapering. In the last quarter, spending ran $1.2-billion (3½%) over the previous quarter, and the current quarter is rising the same amount over last quarter. However, the new estimate for the first quarter of 1962 shows only about half that increase.

Commerce officials suggest that this tapering is illusory, merely the result of the fact that companies haven't yet set their 1962 budg-

ets. Instead, Commerce economists think, companies are projecting their 1961 figures just to be able to give their estimates.

Some companies may be waiting also to see how Administration plans seem to be firming up for tax incentives and the Treasury's new Bulletin F table of useful lives for major productive machinery.

Detailed plans. Manufacturing companies report an increase in their plans for the first quarter—$14.55-billion, compared with $14-billion in the fourth quarter of this year. The increase, if realized, would represent the third quarter in a row that manufacturers have increased their spending by more than they did in the previous quarter.

Capital spending plans of most major industries show an increase from fourth-quarter levels to the first quarter—including durable and nondurable goods manufacturers, railroads, and commercial companies. Mining companies are staying about level with their fourth quarter spending levels; declines are expected by public utilities and by transportation other than rail.

Manufacturers' plans for the first quarter of next year are up 8% from the low of $13.5-billion in the second quarter of this year. Nondurable goods companies showed a steady rise in investment throughout the year and into the first quarter. Durable goods producers—who hit their low in the third quarter of this year—will be spending only a bit more in the first quarter. Auto makers and some electrical machinery companies are planning increases, while steel and nonferrous metal companies expect to taper off.

National influence. The future pattern of plant and equipment spending may be of crucial importance to the Administration's economic and political programs next year. The Council of Economic Advisers, among others, sees a potential leveling of business activity by midsummer, as the stimulative effect of increased government spending begins to taper off.

Officials hope that business spending on new equipment will be on the rise then, to help keep the upturn from faltering.

The pattern of plant and equipment spending—its causes and its effect on the business cycle—will be the subject of a report from the Joint Economic Committee of Congress in the next couple of weeks. The committee has a number of non-government economists taking a new look at the problem—and it will use their report as the basis for hearings early next year.

Jobless rate finally mirrors the upturn

Labor Dept. figures for November register a sharp decline in seasonally adjusted rate of unemployment—and rises in factory work week and hourly and weekly wages

Administration officials this week heaved a sigh of relief over their new figures on employment and unemployment. What they welcomed most, was the sharp drop in unemployment—an index that can cause political trouble when it stays too high.

Pres. Kennedy personally delivered the nugget of good news to the AFL-CIO convention in Miami. In November, the seasonally adjusted rate of unemployment dropped to 6.1% of the labor force from the embarrassing 6.8%-6.9% level where it has been hanging for nine months while business kept expanding from this spring's recession low.

New records. This week's Labor Dept. report also added these new records to the business recovery:

Workers on non-farm payrolls remained at 55.1-million, the same as October, which was an all-time high. The factory work week rose a notch—instead of falling as it normally does this time of year. Average hourly earnings rose to a new record of $2.36. Average weekly earnings of factory workers jumped $1.28, to a new high of $95.82.

Actually, there's some suspicion that the drop in unemployment from October's 6.8% to November's 6.1% is not so dramatic as it seems—that it's partly the result of the way in which Labor Dept. statisticians crank seasonal adjustments into the raw unemployment figures.

The Administration has a committee of outside experts looking into this technical problem of seasonal adjustments. Meanwhile, statistical quibbles aside, the November report does contain a number of heartening figures.

On the job. Over-all, non-farm workers stayed steady at 55.1-million, instead of showing a normal seasonal decline. More cheering is the fact that employment in manufacturing also held steady, while employment in the auto industry actually rose by 105,000 instead of showing a normal decline.

Labor Dept. employment expert Seymour L. Wolfbein noted with satisfaction that since the February business upturn, the number of people on non-farm payrolls has gone up by 2.5-million—one million over expected seasonal increases.

Similarly, the upturn in factory hours (up 2/10 of an hour to 40.6 hours) "is the first significant increase in the work week since late last summer," says Wolfbein.

The number of long-term unemployed (15 weeks or more) also declined in November by 100,000 to 1.1-million. But the hard-core unemployed—workers over 45, Negroes, unskilled and semiskilled workers—still form a seemingly indigestible lump.

Congressional study. This week's figures also gave some support to a new report from the Joint Economic Committee of Congress that suggests that it is possible to reduce the unemployment rate to close to 4% before "running into structural resistance to further expansion of output and employment."

The report, by James W. Knowles and Edward D. Kalacheck, compares employment and unemployment patterns of three recent recessions. Its findings tend to bear out the thesis of Walter Heller, chairman of the Council of Economic Advisers, that business recovery and economic growth will bring our jobless rate down to politically acceptable levels.

This thesis has been questioned by other authorities, including Federal Reserve Chmn. William McC. Martin, who believes that hardcore unemployment is the main target, that it should be tackled directly, and that it's risky to try to cure it by stimulating the economy through spending or easy money programs.

The report will be the springboard for hearings to be held next week by a subcommittee headed by Sen. William Proxmire (D-Wis.).

1918 Thomas Morse Scout biplane, owned by James Nissen, steals the show at antique plane meet in Evergreen, Calif.

Collectors bid high for antique planes

Buffs are buying up early models—the older the better—and restoring them to their original configurations. Relics of World War I are most prized

1929 Great Lakes 2TIA, owned by Clyde Parsons and his wife, took 2½ years to rebuild to original shape.

"Now that I'm over 60 years old, I don't so much stunt flying anymore—just a few quarter turns, snap rolls, and maybe a couple of loops."

The speaker was Robert Reid, part owner of Reid's Hillview Airport in San Jose, Calif., and a member of the Antique Airplane Assn. Reid's 1929 Kreider-Reisner biplane was part of an unusual assortment of airplanes (pictures) that landed recently on a runway freshly carved from an orchard near Evergreen, 50 miles south of San Francisco. They were there for ceremonies honoring John J. Montgomery, an aeronautical pioneer who died in a glider crash in 1911.

The airplanes, all lively relics of a bygone era of aviation, are antiques owned and flown by Northern California members of AAA. The members reconstruct and fly old aircraft, and the older the plane is, the better. It isn't classified as an antique unless it's at least 25 years old. Some of the most highly prized are aerial veterans of World War I.

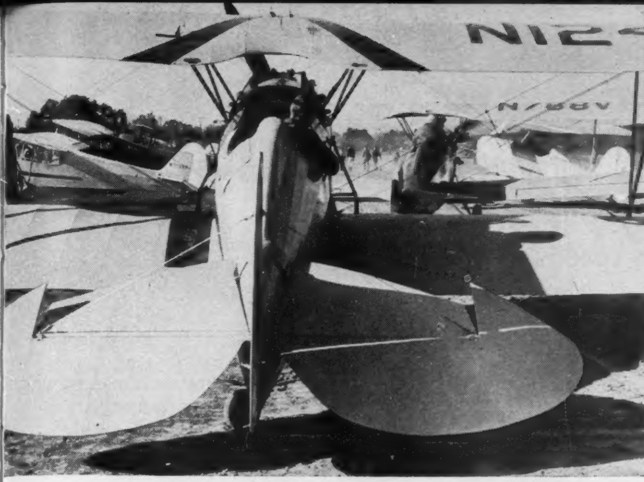
2,600 buffs. The association was formed in 1954, now boasts 2,600 members in 15 chapters scattered across the nation. Periodically, a chapter or group of chapters conducts a "fly-in." That's when association members polish up already spotless antiques, don flying togs, and take off from home airports for a predetermined meeting place, such as the 2,000-ft. jerrybuilt runway at Evergreen. They don't require the services of a regular airport control tower in such cases. Besides, many of the antiques aren't equipped with radios.

Restoration. When rebuilding, the goal is to return the aircraft to the condition it was in the day it left the factory. Adding safety features is the allowable exception. One enthusiast, for example, put $800 worth of radio equipment in a plane that originally carried only compass and altimeter.

Ordinarily, most of the rebuilding is handled by the owners themselves, although they may have some parts specially made. Brimful of esprit de corps, AAA members frequently join in nationwide hunts for hard-to-find parts for a fellow member's plane. One enthusiast estimates that he put from 4,000 to 5,000 hours into reconstructing a "treasure." "I built it up from the original wooden frame," he says.

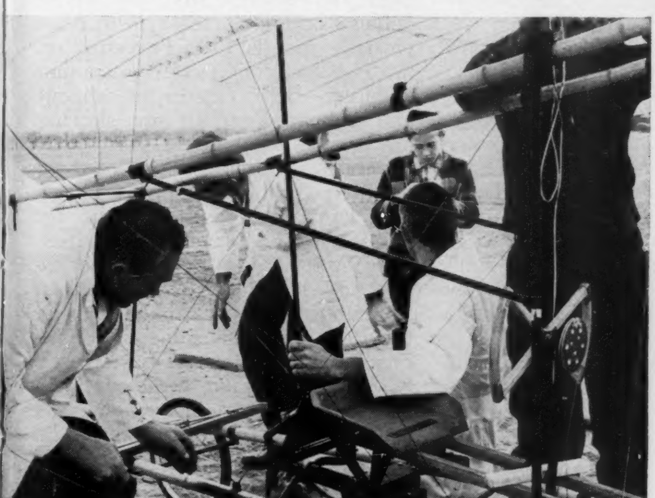
Once restored and if properly maintained, the planes are tough old birds. "I've never heard of a biplane falling apart in the air," says the chief of equipment maintenance for a San Jose building contractor.

Including the cost of restoration, the value of the antiques ranges from about $2,500 to $20,000 for the more glamorous models. Antique buffs wouldn't think of parting with their restorations. Says one pilot, owner of a sporty, low-wing monoplane, a Minx Capon built in 1938: "If the day comes that I can't fly anymore, I'd park it in my garage and just sit and look at it."



Waco "Sport" RNF parks on field carved from orchard where John Montgomery carried out early flight tests with gliders.

Meyers OTW, a training plane built in 1942, is started up by owner Charles Joo, a design engineer for FMC Corp.



Reproduction of the Evergreen—designed and built by John Montgomery in 1911—uses parts of the original plane.

Planes owned and flown by members of Antique Airplane Assn. are authentic relics of the early days of flying.

What's behind the Soviet budget

The Russians undoubtedly are increasing military spending—but not to the extent their new budget indicates

Washington estimates that the real hike probably is no more than 10%, rather than the specified 44%

The vague categories and 'double talk' obviously are meant to stymie analysis by Western experts

U. S. intelligence experts are earnestly dissecting the 1962 Soviet budget, announced last week in Moscow. They're raking up bits and pieces of information that may provide a tipoff on changes in Soviet defense planning and general trends in the Soviet economy.

Analyzing the Soviet Union's national budget as a means of getting a line on Kremlin plans and policies—particularly in the military area—has been compared to practicing the art of divination. The budget does not contain itemized breakdowns, its figures do not add up, its listed categories are vague and inconsistent, and key military programs are concealed in other budget sections.

On the surface. The new budget, which covers the calendar year starting Jan. 1, calls for total government expenditures of 80.3-billion rubles ($89.1-billion). About one-sixth—13.4-billion rubles ($14.9-billion)—is earmarked for direct military outlays. On the surface, this is the largest proportional allocation for defense since 1956.

Theoretically, this represents a 44% boost over the original 1961 Soviet defense budget. The original budget allotted 9.3-billion rubles for direct military expenditures out of a total government budget of 77.5-billion rubles. In July, as world tensions increased, Khrushchev suspended a scheduled cutback in military forces and tacked on 3.2-billion rubles more for military spending. Most U. S. experts, however, discount the size of this addition. The Soviet budget supports a military force of at least 3-million men, including an army of about 150 divisions.

This compares with a current U. S. national budget, for fiscal 1962 ending next June 30, of $89-billion in total spending. Of this amount, $46.8-billion is earmarked for military functions to maintain a force of up to 2.8-million men—including 19 Army and Marine combat divisions. An increase of at least $2-billion in U. S. military expenditures is anticipated for next year.

Fact and fiction. Washington's professional "Kremlinologists" have always been leery of taking Soviet budget figures at face value. Moscow traditionally has manipulated its budget for propaganda purposes. In view of the Berlin crisis and other international hot spots, the Soviet Union obviously must continue to talk tough. And a massive defense spending hike supports this line.

Still, U. S. intelligence experts already have come up with some preliminary but meaningful conclusions about the new Soviet budget. The major one is that the new defense figures are a mixture of fact and fiction: The Soviet Union is making a "significant" increase—in military expenditures, but not as huge as the new budget indicates.

Pentagon parallel. Washington's consensus is that the real increase is probably no more than 10%, rather than the 44% hike specified in last week's budget. This is pretty much in line with what the U. S. is doing to offset mounting world tensions. Pentagon outlays this year are up about 8% over last year. U. S. experts doubt whether Soviet military forces could absorb effectively in one year a real increase as large as the new budget shows.

The best guess is that the Soviet defense increase is comparable to the Pentagon's, that the money is going to fill "gaps" in military capabilities rather than for any enormous expansion in the size of forces. In the U. S., the extra defense funds are being spent to beef up the size and quality of ground forces and tactical air forces to fight conventional non-nuclear wars and to reduce the vulnerability of strategic nuclear striking forces.

Where money is going. According to U. S. experts, the Russians probably are using the extra money to accelerate modernization of their ground forces, to rush into production the latest model ICBM warheads and other strategic armament, and to increase research and development on new equipment. The most serious fear is that the Kremlin may have begun quantity production of second-generation missiles comparable to the Air Force's Minuteman ICBM. These are simpler to deploy than the massive, less-sophisticated liquid-fueled missiles such as our earlier Atlas and Titan.

Up to now, the Soviet Union has failed to order large-scale output of its first-generation ICBMs, mirroring U. S. policy. The Soviet T-3, even more than U. S. missiles, has proven difficult to handle and conceal in the field. In addition, the Russians reportedly have failed to achieve as great a reliability factor with the new weapon as they had planned. In any case, there is no real evidence that a massive ICBM production program is under way.

Less for civilians. One important piece of evidence that the Soviet defense budget increase is at least partially real is this: Pressures on the civilian economy are becoming apparent—both capital investment and industrial output are slowing down. U. S. intelligence sources attribute this to the diversion of more resources for military purposes.

In terms of industrial output, for example, an 8.1% increase is scheduled for 1962. This is below the 9% goal in 1961 and the 10% goal in 1960. In the chemical industry alone, the 1962 plan calls for a 17.7% increase in production. Last year's 42% target was not achieved. So in one sense, the new economic goals can be considered more realistic.

Planned increases in centralized state investment are also declining. The new target is only slightly more than half the 1961 goal of a 12.6% increase. Actually, capital investment

rose only 9.7% last year. The 1960 plan called for a 13.2% hike.

Soviet world strategy. Behind all the economic calculations, however, is the obvious intensification in Soviet world strategy. The Berlin crisis was initiated, demobilization was halted, nuclear testing was resumed, and various military preparedness measures in the Soviet Union have become apparent. Says a Washington source: "Tensions cost money. It would be strange if the Russians could stir up so much trouble without spending considerably more."

Double talk. U. S. experts are confident, however, that the increase is not so large as the budget shows. The Soviet budget is published in a severely restricted shape in what appears to be a studied effort to confuse Western analysts.

In the defense field, many costly items are lumped in under civilian categories. Such programs as military production facilities, which the Pentagon includes under procurement, are carried in the national economy sector of the Soviet budget. Schools for Soviet military personnel are included in large part in the education budget.

Pension payments to retired military men are covered in Soviet social welfare budget. The U. S. Defense Dept., which spends close to $1-billion on military pensions, includes the sum in its military personnel budget. Costs for transporting military personnel and equipment—another $1-billion Pentagon budget item—show up in the Soviet's transportation and communication budget. Military research and development, a rapidly growing sector in the Pentagon's budget, is lumped under the Soviet's science section.

Plowing through this maze of budgetary mechanics, U. S. experts believe that a large part of the new Soviet defense budget increase is the result of some wide-ranging changes in bookkeeping rather than an actual boost in military efforts.

Unexplained items. In adding up all the itemized parts of the Soviet budget, the sum is invariably smaller than the total spending figure. These unexplained funds are called "residues" by U. S. analysts. The scheduled budget residue for 1962 is 4.7-billion rubles, 1.5-billion rubles less than in 1961. Some of the so-called residue funds apparently have been switched to the defense budget.

Most U. S. analysts believe that a ruble or dollar of resources spent for defense in Russia represents less of an economic burden than an equivalent amount spent in the U. S. The ruble goes further for military manpower than does the dollar.

Edward T. McCormick's resignation follows two probes of exchange.

Gustave L. Levy, head of inquiry group, will have big voice in picking successor.

Sudden shift at ASE means reform ahead

Resignation of American Stock Exchange president, undoubtedly forced despite denials, heralds its complete transformation, with stiffer rules, tougher staff

The first tangible results of the investigations of the American Stock Exchange came this week with the surprise resignations of Edward Theodore McCormick (above, left), ASE president since 1951, and Michael E. Mooney, its general counsel.

McCormick's leaving is clearly the precursor of a thoroughgoing reform of the ASE, one that will transform it from a comparatively informal and matey club to an organization with much stiffer rules and regulations as well as a tougher staff to enforce them.

This is not the first time that a stock exchange president on Wall Street has left under fire. In 1935, Richard C. Whitney was voted out as head of the New York Stock Exchange, and subsequently ended up in jail after pleading guilty to charges of stealing securities. The Whitney scandal led to a complete reform of the NYSE, and to the hiring of William McC. Martin, Jr., now head of the Federal Reserve Board, as its first paid president.

Forced. There is no doubt that the McCormick resignation was forced, even though those in charge of the investigations denied any responsibility. A spokesman for the Securities & Exchange Commission, which has been looking into ASE affairs, professed ignorance over McCormick's move. Gustave L. Levy, of Goldman, Sachs & Co. (above, right), who heads the special Wall Street committee established in October to conduct its own study of the ASE, refusing to comment on reports that his group had triggered McCormick's ouster, would say only that it "is working out in the best interest of everybody, including the public interest."

But it is clear that McCormick was pushed out of his $75,000-a-year job, and that the investigators did some shoving. They are the moving force in reforming the ASE. The Levy Committee, backed by the big brokerage firms, will apparently have a major voice in choosing McCormick's successor and in instituting reforms that will sharply limit the

influence of the ASE's floor members, who have had things pretty much their own way.

Aftermath. McCormick's own downfall came as a result of the scandal involving Gerard A. and Gerard F. Re, a father and son team of ASE specialists charged by the SEC with manipulation and fraud.

Most of Wall Street feels that the two investigations produced evidence that prompted the ASE's board of governors to demand McCormick's—and Mooney's—resignations. At any rate, the ASE's board—and many of Wall Street's big firms that are ASE members—were displeased that McCormick had been involved in personal stock transactions with the Res, while Mooney had once provided the Res with legal advice. In any event, their resignations were finally requested and received.

Repercussions. The very fact that McCormick has left under fire—and just three days before he was to act as host at the ASE's annual Christmas party—gave rise to rumors of new and damaging evidence. Whether they are true or not, his leaving is bound to have profound repercussions on the ASE and its way of doing business.

McCormick, whose aggressive and convivial manner masked the fact that he is an expert on securities law, had served with the SEC, both as a staff member and as a commissioner.

Under McCormick, the ASE enjoyed a decade of unprecedented prosperity—partly due to the general bull market in common stocks, but also to McCormick's own talents as a promoter and champion of the ASE.

McCormick never changed the ASE's free and easy way of operating, however. This failure to enforce regulations—in sharp contrast with the tough attitude of the NYSE staff—had a lot to do with the scandals that finally led to his downfall.

Successor. The ASE has not yet found a successor to McCormick. In the interim, Joseph F. Reilly, chairman of its board, is taking over the president's duties. It's expected that a hunt, led by the Levy committee, will soon get under way. But it may be difficult to find a suitable candidate until the investigations are concluded, or at least until the ASE itself is prepared to undertake reforms.

From all indications, this is now in the works. While some ASE members feel that McCormick is being made a scapegoat, they also recognize that having the exchange under a cloud will also result in damage to their business.

FTC wins right to see secret Census data

Supreme Court says commission can demand companies' copies of confidential reports submitted to Census Bureau even though it is not entitled to look at originals

The Supreme Court, in a 6-to-3 decision, ruled that the Federal Trade Commission can demand companies' copies of confidential reports submitted to the Census Bureau. But Justice Tom C. Clark, who wrote the majority opinion, suggested corporations might avoid the impact of the decision simply by not keeping copies for their own files.

The court made clear that only copies retained by companies reporting to Census were subject to demand by the FTC. The bureau's own use of this information remains strictly confidential.

This hairline distinction was troublesome to Justice Hugo L. Black, speaking for the three dissenters. He claimed the government is reneging on a promise to keep manufacturing census information secret.

Specific case. Specifically, the court's decision deals with St. Regis Paper Co.'s refusal to comply with an FTC demand for corporate information going back to 1954. St. Regis supplied part of what the commission requested, but balked at other demands. The court's ruling also means that St. Regis will be subject to penalties of up to $58,000, according to an FTC official, for refusing to supply the information.

In a broader sense, though, the ruling means the FTC can force any company to give up its file copies of reports submitted to the Census Bureau—and guaranteed confidential by Census. The FTC and the Justice Dept.'s Antitrust Div. had maintained the reports were vital to antitrust enforcement because they feel only from this source can they get a good idea of a company's place within its industry. The Commerce Dept., the Census Bureau, and the Bureau of the Budget had argued against making the reports accessible to the antitrusters.

What's involved. The reports contain such information as companies' production breakdowns, percentages of sales in various products, lines of products. Companies are required by law to report this information, but the forms are stamped "confidential" and include a statement that they cannot be used "for purposes of taxation, investigation, or regulation." Census has told companies the same rules apply to both their retained copies.

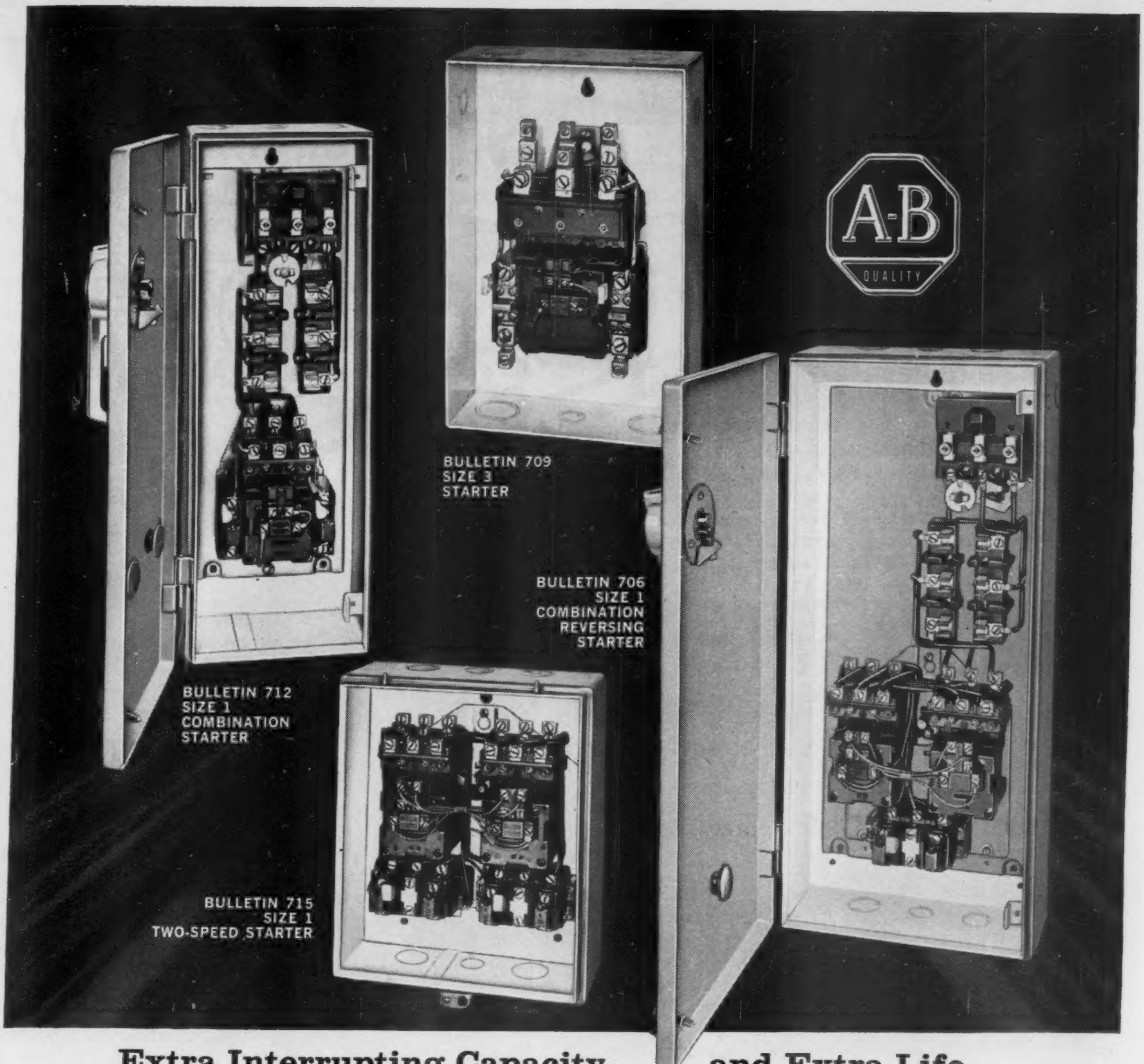
This latter statement, Justice Clark said, however, was a misinterpretation of the law. Congress specifically exempted the reports that go to Census from other than Census' own use, but there was no exemption for companies' copies, he said.

Loophole. But Justice Clark said that the law "does not require petitioner [St. Regis] to keep a copy of its report . . ." This is a clear indication that he feels the law as it reads is unfair, and that companies can circumvent the court's decision simply by not keeping file copies of reports. He also hinted that he thought it might be appropriate for Congress to give file copies confidential status.

Census Bureau officials made no bones of their dissatisfaction with the court's opinion. "We are a statistical agency, not a regulatory agency," said Rich M. Scammon, director.

FTC position. In explaining the commission's position, an FTC official says that it would be rare for an anti-merger or anti-monopoly case to be filed solely as a result of information gleaned from a manufacturer's Census report. The data help the commission decide how important a company is within its industry and how an industry's makeup might have shifted, and this information can help in making a final decision on filing a complaint.

FTC has power to demand corporate records and information, without Census information. Says this commission official, "it would be a bit more difficult for us to arrive at intelligent conclusions about whether we should file a complaint."



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Member of NEMA

Two big airlines agree to merge

National and Continental together would rank fifth in the nation. CAB expected to approve pairing that would eliminate a potential weak spot

National Airlines, Inc., and Continental Air Lines, Inc., the nation's ninth and tenth largest in terms of operating revenues in an 11-airline industry, agreed to merge this week, subject to the approval of the Civil Aeronautics Board, stockholders, and creditors. The combined airline, which would be known as National-Continental, would rank fifth.

Approval of the merger, at least by the board, is considered likely. This is the first firm proposal for a consolidation following a speech by CAB Chmn. Alan S. Boyd in which he called for airline mergers [BW Nov.18'61,p91]. It also satisfies a privately expressed CAB ideal that some semblance of the industry's present balance be retained. Finally, by combining Continental, which is profitable [BW Sep.23'61,p90], with National, a carrier that has lost money in three out of the past five years, a potential problem could be removed from the board's list.

The initial agreement to merge was filed on Tuesday. G. T. Baker, National's board chairman, and Robert F. Six, Continental's president, declared that "every effort would be made to consumate a final, definitive merger agreement within 60 days."

Stock terms. The preliminary agreement called for each common shareholder in National to receive 1¾ shares of Continental for each National share held. There are at present approximately 1.8-million shares of National outstanding. Continental has 2.8-million shares of common plus $3.2-million worth of convertible subordinated debentures, convertible into common stock at $7.96 a share. Continental common recently traded at $8.50, National at $14.63.

For National's fiscal year ended June 30, 1961, the company had total revenues of almost $64-million and a net loss of $7.3-million. Continental, which reports on a calendar year, had total operating revenues in 1960 of $61-million and a net of $1.5-million. So far this year it has reported a profit every month.

If the two companies do merge they will have one of the oddest route structures in the business (map) with which to contend. They will also have problems with spare parts and equipment. Together, the two carriers have practically every type of airplane flying in their combined 76-plane fleet.

Potentialities. Nevertheless, a combination of the two carriers could make a stronger airline than one would think merely by adding route miles, assets, or revenues.

Key to this is the segment between Chicago, Cleveland, and New York for which Continental has filed. If Continental is awarded this route and if the merger is approved, the resulting airline will have achieved a much-sought-after goal. By flying a triangle route such as New York-Miami-Los Angeles-New York—with whatever intermediate stops are necessary—aircraft utilization and profits could be increased sharply. It is turning planes around that often shoots costs up.

Whether or not the loop is completed, Continental and National would still fit well together because the former's traffic peaks occur in summer, the latter's in winter.

In the preliminary document filed with the board, Baker and Six were careful not to mention who would be chief executive officer in the resulting airline other than to say that Baker would be board chairman and chairman of the executive committee while Six would be president. Insiders, however, think that Six will emerge as the boss.

In business

Domestic trunk airlines call year worst, see $30-million collective loss

It's official now; the 11 domestic trunk airlines will have their worst year financially in history. Their trade group, the Air Transport Assn., estimated that the carriers will show a combined **net loss after taxes and interest payments of $30-million for the year.** This compares with a small profit of $1.2-million last year. The highest previous loss was $20.2-million in 1947.

Despite the gloom, a majority of the airlines will show a profit for 1961. It is the staggering losses of the minority that will drag the industry so far into the minus column.

Reasons given for the industry deficit are a decline in passenger growth—only 1.1% this year—and a shift from first class to the less-profitable coach. Tourist travel now accounts for approximately 57% of airline travel.

During the last two months of 1961, business has picked up sharply, and the industry is mildly optimistic for 1962.

All 1963 cars and trucks to carry anti-smog crankcase device

Government officials who fear that the ever-increasing number of cars and trucks on the roads is poisoning the air won a signal victory last week. The Automobile Manufacturers Assn. agreed that beginning with the 1963 models all new cars and trucks will be equipped with "positive crankcase ventilation"—a system to reduce the amount of unburned gases turned loose from the crankcase.

This equipment is not at all what dedicated anti-smog fighters have been calling for; they want some sort of simple and inexpensive device that totally eliminates noxious exhaust emissions. Such a development is not yet in sight. Meanwhile, though, the auto manufacturers have agreed to use the "blowby" device, which burns gases normally vented into the atmosphere. This device has been in use on all new motor vehicles sold in California since the 1961 models, and costs only $4-$6.

Kefauver's drug industry hearings end on an amicable note

The pharmaceutical industry and Sen. Estes Kefauver (D-Tenn.) parted very nearly friends after two years of often-heated hearings on drug prices by the Senate Antitrust & Monopoly subcommittee.

Kefauver had given the industry a chance to close with an organized counterattack, after which the senator praised the Pharmaceutical Manufacturers Assn. for not trying "to duck the basic issues or casually dismiss them with clever public relations phraseology." Instead, he said, drug makers used "industrial statesmanship" in facing up to industry problems.

The biggest of these problems, according to Kefauver, is that the **drug makers charge too much for prescription drugs,** for which he says the patent system is the primary villain.

As for the drug bill introduced by Kefauver, **the industry's only really bitter complaint was that it would reduce exclusive patent rights to three years,** after which the drug makers would have to license qualified competitors to make patented drugs at 8% royalties for the remaining 14 years of the patent's life. And Kefauver said he was "not irrevocably wedded" to precisely this approach.

Crude oil import curbs eased for period of Kennedy-ordered study

Oil importers, who had braced for a cut in import allowables for crude, have ended up instead with an increase for the first six months of 1962, when the Kennedy-ordered study of the nation's petroleum needs is to be completed by the Office of Emergency Planning [BW Dec.9'61,p38].

Companies importing crude east of the Rockies will be allowed to bring in 704,116 bbl. per day through June; that's 14,399 bbl. per day more than in first-half 1961. There's a slight cut in the West Coast allowable, but the net increase for the whole U. S. is about 12,000 bbl. per day.

Meanwhile, Director Frank B. Ellis of the OEP said the agency's study of residual fuel imports is "independent" from the over-all investigation. He added that **possible changes in residual fuel controls wouldn't "necessarily" have to wait till the other study is completed.** Importers of residual hailed the announcement as improving their chances of having the controls eased.

Business briefs

Sherrod E. Skinner, who retired in October as Executive Vice-President of General Motors, this week was named chairman of the board of trustees of **Aerospace Corp.,** largest of the nonprofit research outfits working exclusively for the government (page 65). Skinner succeeds William C. Foster, who has been named to head the new U. S. Arms Control & Disarmament Agency. Skinner, trained as an engineer, was famed in Detroit as an unerring spotter of top executive talent.

The air was somewhat cleared for Northeast Airlines this week when the U. S. Court of Appeals turned down an attempt to block aid to the hard pressed carrier by Hughes Tool Co. The court's action could mean that Hughes Tool, which owns 78% of Trans World Airlines, could now acquire control of Northeast through its emergency financial help.

Washington outlook BW

December 16, 1961

Taxes will be back as a fighting issue

The tub-thumping now is for and against Pres. Kennedy's liberalized trade policy. It will be the dominant issue in next year's Congress.

But once Congress settles down to work, some crucial questions about taxes will demand attention. **Before the session is over, taxes will be found at the heart of a lot of tough fighting.**

Administration policy is to keep the spotlight on trade. The last thing it wants is to have Congress go on a tax rewriting spree in an election year.

On the shelf: reform and tax cut authority

The Administration, for example, is likely to postpone any recommendations for a long-range, fundamental tax reform bill until late in the session —perhaps midsummer.

It won't press for action next year, but will be satisfied to get its ideas on paper for consideration by a new Congress in January, 1963.

This sense of caution also is squelching a move to ask Congress for Presidential authority to cut tax rates in a recession.

The idea is liked in the Council of Economic Advisors. Some officials there want to see it included in the President's economic message to Congress next month. **It doesn't seem likely to get beyond the discussion stage,** partly because it would certainly touch off a furious row in Congress.

Where the fighting will be hottest

Controversial ideas held over from this year will cause most of the trouble for Kennedy and Treasury Secy. Douglas Dillon, his chief tax strategist.

Kennedy again will ask Congress to tighten the laws regarding taxation of profits earned abroad. Business fought the idea this year, and many key tax authorities in Congress were skeptical. It doesn't seem to have gained any support in the three months Congress has been in adjournment.

Kennedy's budget and economic messages will also press for a tax credit to stimulate industry spending for new equipment.

Business opposition and a doubtful House Ways & Means Committee blocked this proposal this year. Opposition may be lessening. Several large corporations in steel, aluminum, and electrical equipment manufacturing have quietly told Congressional tax experts not to include them among opponents.

Consumers cause a glow for forecasters

The swifter pace of trade has federal budget-makers smiling.

Early soundings indicate that consumer spending may be taking an $8-billion jump in annual rate (seasonally adjusted) this quarter, compared to gains of around $5-billion in the second and third quarters.

Durables lead the swing, paced by autos. Altogether, durables may show a $4-billion rise this quarter. In the third quarter, durables showed only a token rise, and in the second quarter they gained only $2.6-billion from the recession low. It's the quickening pace that gives comfort to Administration forecasters.

Analysts see profits glittering, too

Forecasters of corporation profits are on the cheery side, too.

Analysts specializing in this risky field see signs that **profits will hit a $50-billion-plus rate in the current quarter.** This would be a jump of $10-billion from last January-March. By mid-1962, the rate could be $55-billion, they feel.

Washington outlook Continued

Budget makers watch profits with particular care, as the Treasury gets close to half of all profits in the form of income taxes.

These signs of vigor strengthen those in the Administration who have been urging an optimistic forecast of revenue. For fiscal 1963—beginning next July 1—the revenue forecast is expected to be around \$92-billion or \$93-billion. This much will be collected only if the hopes of the optimists about business are borne out.

Add: things that look different from inside

A note on this year's budget-making process.

Step one: The Administration estimates receipts—a Treasury Dept. responsibility.

Step two: Spending requests are cut to fit within the receipts estimate. This is done in the Budget Bureau, consulting with the agencies and departments.

The second step—now being completed for the fiscal 1963 budget—has resulted in cutting military outlays well below what the professional military men requested.

This is the same process followed by Pres. Eisenhower.

When Eisenhower was doing it, **Democrats accused him of putting a balanced budget ahead of defense.**

Now that Kennedy is finishing his first budget document, using the same procedure, **it will be defended as fiscal prudence**—another instance of the difference between being out of the White House and being in it.

Goldberg asks for own words on wage rises

Labor Secy. Arthur J. Goldberg disappointed some of Kennedy's aides by **taking a soft line against wage increases during his appearance at the AFL-CIO meeting in Miami Beach.** Goldberg may have surprised himself. At least he called immediately for a transcript of a press conference to see just what he had said.

Kennedy, in a speech, asked the union leaders to exercise restraint on wages as part of the fight to close the deficit in the balance of payments. So did Goldberg, **but Goldberg added that there would be room for increases in case of "inequities" and to meet cost of living adjustments.**

This sounded to some Administration officials as though Goldberg were inviting increases, instead of warning about rising wage costs as others have been doing, particularly in the Commerce Dept. and in the Council of Economic Advisers.

How Kennedy made up his mind on trade

Kennedy decided on his own to ask Congress for a broad new trade program next year. **His closest adviser on the subject, Under Secy. of State George Ball, wanted to wait until 1963.**

For weeks, Kennedy talked trade policy with White House visitors. Rep. Henry S. Reuss (D-Wis.), a liberal trader, had a 10-min. appointment; it stretched into an hour. The same thing happened to Rep. John H. Dent (D-Pa.), a protectionist. During a trip to Oklahoma, Kennedy had a long talk with Sen. Robert S. Kerr, a key member of the Senate Finance Committee. He also visited with Senate Majority Leader Mike Mansfield of Montana and Sen. Warren G. Magnuson (D-Wash.); these men all have strong protectionist groups to deal with.

In the end, **Kennedy relied on his talks with practicing politicians rather than on his staff or on experts in trade or diplomacy.**

In new products

Hess Bros.' annual versatility contest turns up an array of multipurpose products

To flush up unusual, new products for his department store, retailer Max Hess of Hess Bros. in Allentown, Pa., stages a Versatility in Design and Use Contest each year, open to inventors and manufacturers. Hess has his eye peeled for multipurpose gadgets fresh on the market, or soon to hit the market. This week, his 11th contest was off to a flying start. Among the Hess finds:

- **For travel: Sagner, Inc., a "travel suit" with 19 inconspicuous** pockets for holding all the tickets, stubs, schedules, and other paraphernalia that a traveler inevitably accumulates. Matralin Co., luggage that does away with packing and unpacking; four legs and interlocking pins convert a pile of suitcases into a dresser.
- **For leisure:** Inventor John Francis of Weirton, W. Va., a **combination fishing rod with a radio in the handle**, an antenna in the rod itself.
- **For home use:** Inventor Richard Bandler of Allentown, **a chair with stereophonic speakers in the arms**, along with the controls. Snyder Mfg. Co., an indoor TV antenna concealed in a pole lamp. Birmingham Ornamental Iron Co., a hostess wagon with a heating brazier on one side to keep food warm, an ice container on the other for cold drinks. Westinghouse Electric Corp., **an electric frying pan with a lid that converts it to a broiler;** also, a portable table-sized electric green house. Scott & Fetzer Co., a vacuum appliance that does 78 different chores, from shampooing and scalp massaging to vacuum cleaning.

Last year, Hess Bros. drew 8,000 entries, and its panel of judges—picked from various product fields represented—made 30 awards. This year's contest runs to March 31.

GE comes up with new circuit breaker that works on vacuum principle

A vacuum-type short circuit interrupter that will snuff out electric arcs in less than 1/30 of a second has been developed by General Electric Co.'s Switchgear & Control Div., Pittsburgh. Standard circuit breakers do the job with blasts of oil, gas, or air—but GE claims a more ideal way to quench arcs is in a vacuum, without the use of noxious or flammable materials.

According to GE, the new interrupter will be faster, more efficient, and require less maintenance than units now in service.

The first model will be built for transmission lines up to 15,500 volts, but GE says there are no technical limitations to prevent designs for higher capacities. Price is about the same as oil units with the same capability: $2,500 to $4,000. Deliveries will begin in late 1962.

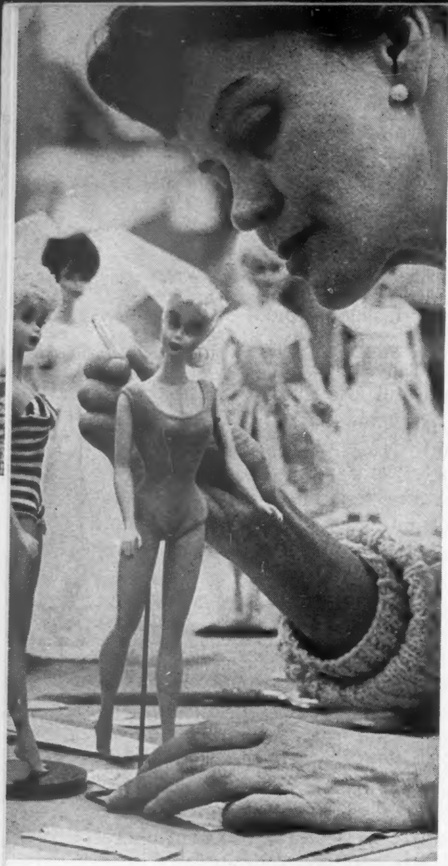
New products briefs

A pocket-size imprinter weighing less than a pound is being marketed by Safeguard Data Corp., Lansdale, Pa. Using an embossed plastic plate for marking, it makes optically scannable imprints to facilitate credit card and other business transactions. Price is approximately $15.

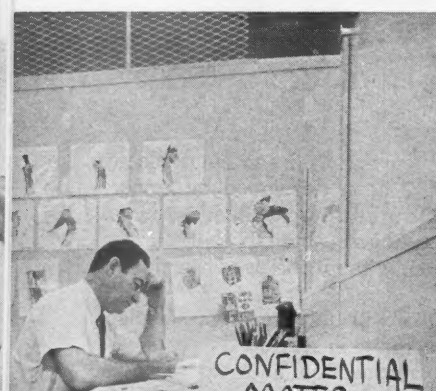
A public vending machine to copy office material is being manufactured by Documat, Inc., Waltham, Mass. The machine, one of which has already been installed in the lobby of Boston's Tremont Building, makes copies of letters, records, and documents in 25 sec. upon the insertion of two quarters in a slot.

It's not the doll, it's the clothes

Toy maker Mattel, Inc., is cashing in on costumes for its fashion doll Barbie—one example of how emphasis on research and advertising spurs company's fast climb



Costume designer Charlotte Johnson originates Barbie's many wardrobe changes, which sell at 100,000 a week.



Art directors, among them Dave Weissman, are important part of Mattel operations; its creative staff numbers 80.

Though many American fathers of sub-teen girls may be unaware of the date, Mar. 1, 1959 was an important one for their toy and doll budgets. It was the day Mattel, Inc., Hawthorne, Calif., toy maker, began taking orders for its "Barbie" doll—the doll that requires a dozen or two complete changes of costume to make it, and its sub-teen owner, happy.

Since that date, Mattel has more than tripled its sales. With the built-in doll-upkeep market—something like the safety razor and blades—it is shipping now in excess of 100,000 costumes a week, and still can't meet the demand. Competitors, jumping in with fashion-model dolls of their own, whose costumes conveniently fit Barbie, haven't been able to bridge the gap either.

Mattel is having similar success with its large talking dolls. Between Mar. 1 and Dec. 15 it shipped a total of 1-million "Chatty Cathy" dolls (suggested retail price $18) and another 1-million rag dolls ($9 and $10). (Barbie retails at $3; its costumes, numbering several dozen in all, cost from $1 to $5.)

Doll R&D. Fads do come and go in the toy business, but Mattel's bosses, Elliot and Ruth Handler (picture, right), think there's a firmer foundation for Mattel's swift rise from ninth place in the toy industry five years ago to a point where it is challenging long-time leaders and, in fact, claims top spot for this year.

The Handlers, husband and wife, feel the success of Barbie and Chatty Cathy is the result of their special approach to the toy business, with a double reliance on:

- Heavy research and development expenditures. In its current fiscal year, ending next Feb. 28, Mattel budgeted $750,000 for R&D on new products. Next year it will be $1-million. Its creative staff of artists, sculptors, game designers, experimenters, costume designers, and engineers, now 80, will increase to 100 or more next year. It has six or eight people doing "blue-sky" thinking for several years ahead.
- Enormous advertising budgets. This year Mattel budgeted $3.3-million, is spending $3.6-million; next year's budget is $4.5-million. (Sales for the last fiscal year were $25.4-million, are running about double this year.) Mattel is the only toy manufacturer with a national network television program of its own.

Uptrend. Mattel's husband and wife team—Elliot is president and Ruth is executive vice-president and secretary—believe this is putting them at the head of the trend in the toy business. Says Ruth: "Retailers and jobbers have stopped taking risky lines; they're putting more emphasis on hot lines. This makes it tough on toys that are not well designed and well merchandised."

I. Industry line-up

Some attrition and consolidation is showing up in the toy industry, at both retail and manufacturing levels. One sign: Manufacturers exhibiting at the 1961 spring toy show numbered 1,200 and 12,000 buyers attended—down from 1,500 and 15,000 four years ago. A number of companies are going public to get more capital to expand and diversify.

Over-all, the toy business is good. Sales in the first eight months of 1961 were up 12% from 1960, according to the Toy Manufacturers of the U. S. A., Inc. Wholesale volume for 1961 is expected to top $1-billion, compared to $800-million last year. Toy makers look for toy sales to go on rising faster than the general sales level—in the 1950s, toy

Ruth and Elliot Handler, Mattel's top team, survey their Barbie dolls and boy friend Ken in their dozens of costumes


OLD TAYLOR
KENTUCKY STRAIGHT BOURBON WHISKEY
OLD TAYLOR
86 PROOF
OF TOPMOST CLASS
BOTTLED BY
LOUISVILLE, KY.
OLD GRAND-DAD
100 PROOF
KENTUCKY STRAIGHT BOURBON WHISKEY
BOTTLED IN BOND UNDER SUPERVISION OF U. S. GOV'T
DISTILLED BY
THE OLD GRAND-DAD DISTILLERY COMPANY
FRANKFORT, KENTUCKY
The Leading Kentucky Whiskies.
IN EVERY DETAIL OF EXCELLENCE THESE WHISKIES EXCEL.
LOW INSURANCE.
PERFECT STORAGE.
FRANKFORT, KENTUCKY.
OLD CROW
KENTUCKY STRAIGHT BOURBON WHISKEY
BOTTLED BY
W. A. Gaines
DIVISION OF THE OLD CROW DISTILLERY COMPANY
FRANKFORT KENTUCKY

shipments increased 116%, compared to 53% for retail sales generally.

It's clear that there are more toys in the higher price brackets, too, from $10 to $20 and even more. Mattel believes the public will pay for quality and uniqueness—next year it is bringing out a galloping hobby horse for $44. "We design the toys now and let the price fall where it may," says Ruth Handler.

Standing. Mattel won't give out sales figures until the stockholders get them in annual and six-month reports. But with sales running double a year ago, that would put Mattel somewhere over $45-million for the current year. Mattel claims this puts it at the top of the industry in sales.

Comparisons for the industry can only be estimates, since the perennial leader, Louis Marx & Co., doesn't publish its figures. Ruth Handler estimates that Marx, Ideal Toy Corp., and De Luxe Reading Corp. are close on Mattel's heels. Ideal's Chmn. Benjamin F. Michtom projected sales of $33-million for 1961 at the New York toy show Oct. 14. Ruth Handler puts De Luxe Reading also in the $35-million bracket for 1961.

Then, she says, there's a drop to the level around $15-million, with Remco Industries, Inc., and Milton Bradley Co. No other manufacturer does as much as $15-million in toys, she says (toy makers don't count in bicycle manufacturers, but class them as wheeled goods makers).

Elliot Handler rides hobby horse, representing Mattel's latest plunge; company is bringing out next year a child-size, galloping hobby horse—retailing at $44.

II. Talking toys

Mattel is a comparative newcomer to the toy business. It started as a partnership in 1945, making toy doll furniture, and incorporated in 1948, after bringing out a line of musical toys. It has since sold 50-million of these, and got itself typed at first as a musical toy maker.

But it refused to stay typed, and against the advice of the industry old guard set out on a path of planned diversification. It began its assault on various established bastions of the toy industry in 1955, when its sales were $5-million.

First came toy guns. Then, with Barbie in 1959, it branched into dolls—and today, half its sales are in dolls. Mattel followed up Barbie's initial success with expansion of Barbie's wardrobe, a companion boy doll called "Ken," and the talking dolls.

This year, Mattel took the plunge into games, with Sonar Sub Hunt at $14, Popzaball at $7, and Lie Detector at $5. More are on the way.

Research payoff. It's in the doll line that Mattel's heavy emphasis on research and creative effort shows up strongest. In 1956 Elliot Handler—who is the creative chief, with Ruth running day-to-day business operations—decided that Mattel should invent a new type of talking mechanism for dolls. He wanted one with no battery and no wind-up key. He wanted the doll to be able to say a number of phrases in a random way, have a "fun" kind of voice, and look realistic.

It took three years of intensive R&D before he got what he wanted.

The end product, Chatty Cathy, made her debut in the spring of 1960. Cathy chats when a string device is pulled at the back of her neck, actuating a spring in her head which runs a miniature record. The doll may say any one of 11 random phrases, such as "I like to play with you."

III. Shapely doll

Mattel's staff was working simultaneously on Barbie. The idea of a teen-age fashion doll was suggested to Ruth Handler by her daughter Barbara's liking for more adult-type dolls with beautiful clothes. This led to the idea that little girls wanted to identify themselves with teen-agers.

The pattern on which Barbie was developed was somewhat revolutionary in the doll trade at the time—a doll with a slimmed-in waist, chorus-girl legs, and a noticeable bust.

There hadn't been a shapely doll before, and when Barbie came out, the trade was aghast, prophesying all sorts of parental objections. Fathers, it turned out, did object, but mothers thought Barbie was great.

Made in Japan. Mattel's researchers told the company the doll and its clothes couldn't be manufactured successfully in the U. S. At that time, however, toy makers were facing a threat of Japanese toy imports, and many manufacturers were going to Japan. The Handlers decided to do the same. They took their designs to Japan, built up the manufacturing and quality control needed to make them. Production lines were ready by late 1958.

When Barbie was introduced at the March, 1959, toy show, the trade was skeptical. Miniature dolls had been a hit from 1954 through 1956, then had gone sour. But Barbie went over big. Mattel shipped over 500,000 dolls and 1-million costumes in 1959, has increased its Barbie manufacturing capacity by 50% each year since.

Cashing in. Mattel moved quickly to take advantage of Barbie's popularity. The companion boy doll, Ken, brought out last March, went over even better than the company expected. Mattel projected sales of one Ken for every five Barbies; the ratio so far has been one for two.

Mattel feels it has stumbled on what it calls a "play situation"—a toy that has "play value," one the child can manipulate and respond to, in contrast to classic German

toys, which a child winds up and watches. Every Mattel toy has a do-it-yourself angle.

The company jumped quickly into lucrative side lines, licensing other toy manufacturers to make Barbie accessories and playthings—a Barbie wallet, Barbie bed, and Barbie cosmetics. Mattel itself makes a Barbie game, publishes a Barbie magazine. It has allied itself with Advance Pattern Co., Inc., New York, for Barbie clothes patterns.

IV. Plunging into TV

Mattel is taking a similar tack in exploiting its new television program —Matty's Funnies with Beany and Cecil—set to start Jan. 11.

Mattel took its first TV plunge in 1955, when it was offered a quarter-hour on the Mickey Mouse Club program—at $500,000, more than three times its advertising budget for the year. But the gamble paid off in sales, and Mattel then sponsored its own weekly half-hour show for children from four to 12—Matty's Funday Funnies. The company's advertising agency, Carson/Roberts/ Inc., developed a cartoon character, Matty Mattel, to tie the show together.

For the new show, Mattel has signed a two-year contract for a weekly show, and has sewed up merchandising rights to the Beany characters, with Beany and Cecil games, bubble bath, stuffed toys, and what not.

Hedging. As a hedge against any slackening of interest in Barbie, which hasn't showed up yet, Mattel brought out this year Barbies with new hair styles and different color hair. It will also test the market with a colored Chatty Cathy doll.

Mattel spends $200,000 a year for market research—not to decide what toys to make (it does that on the Handlers' hunches) but to try to find out, so far unsuccessfully, what size market there is for any toy. "If we could ever accurately forecast the demand and the movement of toys over the counter, we'd make a fortune," says Ruth Handler—meaning that the information would help level out production schedules, and produce big overhead efficiencies.

Creating a better year-round demand for toys is, of course, an industry goal [BW Dec.14'57,p176]. Mattel aims to create advance demand by advertising, and this forces jobbers to order earlier than they otherwise might. The toy industry as a whole ships 60% of its toys in the 10-week period from October through mid-December. Mattel has worked this down to 50%. **End**

"Any contemporary institution, if subjected to the close examination we have given collective bargaining, would likely exhibit at least as much room for improvement."

"The emergency potential of a given labor dispute is always grossly exaggerated at the moment it occurs."

"The strike has sometimes served a constructive purpose."

"We do not believe that general appeals for voluntary restraint, from whatever source, will have any lasting effect on the course of wage negotiations."

"A moderate amount of conflict is preferable to a system of widespread government control over the terms of agreements."

—Committee for Economic Development's study group on national labor policy

LABOR

Fresh look at labor policy

Academic committee, financed by CED, makes controversial recommendations in report after two years of study. Its clearest call is for less government intervention

Industrial labor relations in the past 30 years have been encrusted with the details of government intervention: laws upon laws, executive acts, judicial rulings down to the finest of points. In many ways, these have warped the natural workings of labor negotiation. It's time to clear the way for genuine collective bargaining, with the government as a last—rather than a first—resort in disagreements.

These in general were the findings of a nine-man study group headed by Dr. Clark Kerr, president of the University of California. After nearly two years of study, the committee released its long report last week. While the report came from an academic source, it stirred immediate controversy.

The discussion began even before publication when the recommendations were outlined to directors of the Committee for Economic Development, which had aided the study financially although the Kerr group worked independently.

Bargaining in good faith. One of the most controversial points is the Kerr committee's suggestion to repeal the Taft-Hartley provision that requires employers and unions to bargain in good faith. The group says this provision is overworked to a point where the government has become "a ghost at the bargaining table." The government should merely get the parties into the negotiating room and leave them to their own devices, it says.

This suggestion was sharply challenged by labor leaders who are holding meetings in Miami Beach. Spokesmen for several large unions conceded that they probably wouldn't be hurt by such a change in the law, but spokesmen for smaller unions, including those in the textile industry, said some such provision is vital to them. They need the "psychological weapon" of the right to take employers before the National Labor Relations Board, they said, or even into the courts on charges of refusal to bargain in good faith.

The committee also said Taft-Hartley should be tightened with respect to what employers are allowed to say during an organizing campaign, so as to bar "statements . . . that appear to us to be coercive in many cases." This recommendation stirred resistance among employers, who have fought hard to win "free speech" rights.

Broader unionization. The report says the right to organize into unions should be extended to all in interstate commerce who are now excluded. It says, however, that government employees and hospital workers should be represented by unions that have "different weapons than the strike"—presumably compulsory arbitration.

The group also suggested that agricultural workers be represented by unions, but that wages be determined by special boards before each crop season.

Price effects. Collective bargaining may have contributed to recent price increases, but the evidence isn't clear enough to warrant major changes in the system of determining wages, the committee says.

The report adds that appeals for voluntary restraint aren't likely to have any significant or lasting effect,

but that committee members oppose "permanent government machinery to regulate or review wage determination"—for example, by measuring wage gains against productivity gains.

To give labor more mobility and make more effective use of manpower, the committee recommends consideration of an integrated national plan in the pension field "and other devices."

More power for employers. To counterbalance union power, the group recommends organization of employers in more associations, as well as a more clearly-defined right to lock out employees. Employers' joint strike insurance plans should be considered a legal counterpart of union strike funds.

The committee favors support of Landrum-Griffin provisions for democratic procedures, guarding of minority rights, and financial integrity within unions. But it warns that these same provisions might be used by minority blocs to disrupt responsible operation of unions.

Strike reactions. The public has a strong interest in the moderating of labor disputes, the report says, but an outright ban on strikes would merely transfer disputes to the political arena and imbue them with ideological overtones. It is "just as important to employers to be able to resist union demands to the point of bringing on a strike," says the study group, "as to unions to be able to exert strike pressure . . . to gain concessions."

The report warns employers against the explosive results of strike-breaking, back-to-work movements, which "transform the strike from an incident in a long-term bargaining relationship to a war for [union] survival." However, it adds: "We stand without compromise for the employer's right to operate [a struck] plant and the right of individuals to enter the plants." Such people should be given police protection.

Union antitrust. The report opposes general application of antitrust principles to unions, says these should be reserved for use against individual unions that act to rig markets or fix prices.

This proved a particularly controversial point at the CED directors' meeting, and it was the one point on which a dissent was filed within the study group itself. Prof. W. T. Elliott of Harvard, concerned over the possibility of a "massive monster" of a transportation union under James R. Hoffa, wanted to recommend at least standby provisions for broader use of antitrust laws against such unions as the Teamsters.

Dr. Kerr commented that the report was "a distillation of discussions" and, as such, received virtually unanimous support of the group. "No member of the group endorses personally every specific recommendation in its entirety," he said.

Federal action. The report urges more use of voluntary third-party bargaining and mediation, including improved and expanded federal mediation and national and community labor-management panels to help resolve disputes.

It recommends giving the President "a variety of possible courses of action" in emergency disputes, to make his actions "somewhat less predictable to the parties than now." But the committee notes that too many disputes have been called emergencies in the past when "the existence of a genuine emergency was at least doubtful." Special procedures should be used "with utmost caution and reluctance."

One recommendation of new emergency Presidential power was for the right to order the partial operation of struck facilities.

The committee particularly criticized "rigidity and procrastination" in the Railway Labor Act. It proposed that carriers and their unions handle grievances between themselves, as employers and unions do in other industries, instead of through a government board, and that much the same emergency procedure be used for transportation disputes as in other industries.

It called for stronger efforts, but no FEPC, to end race bias; urged that the agency shop be legalized as national policy for all states; declared that union members "should not be compelled to support [union] political expenditures," particularly if membership in the union is compulsory, and urged considerably more attention—in government and cooperatively between labor and management—to find solutions to problems of adjustments to technological change.

The committee. In addition to Dr. Kerr, committee members included Dr. George W. Taylor of the University of Pennsylvania; David L. Cole, of Paterson, N. J.; Prof. John T. Dunlop of Harvard; Prof. Douglas V. Brown of the Massachusetts Institute of Technology; Prof. Elliott of Harvard; Prof. Albert Reese of the University of Chicago; Prof. Robert M. Solow of MIT, and Prof. Philip Taft of Brown University.

Dr. George P. Schultz of the University of Chicago was staff director, with Dr. Abraham V. Siegel of MIT as his associate director.

Unions set their sights for '62

Delegates to AFL-CIO convention call for increased membership, but continue to bar Hoffa's Teamsters

AFL-CIO passed its standard organizing resolution this week—a call for greater efforts to organize the unorganized, with few details on how this is to be done.

Nevertheless, labor leaders at the federation's biennial convention in Miami Beach expect that the organizing tempo will pick up in 1962.

Unions sense an increased interest in organization in the South. And they consider their chances of winning elections much better under a National Labor Relations Board "sympathetic" to labor.

Specific. Industrial unionists in AFL-CIO wanted a resolution that would be specific in its plans for intensive campaigning. The richest labor movement in the world has resources and manpower enough to mount major campaigns; all that's lacking is "the will to commit ourselves to this task," United Auto Workers' Pres. Walter Reuther told delegates.

The big barrier to this commitment continues to be jurisdictional rivalries between crafts and industrial unions, factionalism between the "conservative" bloc of former AFL unions and the "militant" bloc of former CIO affiliates.

Ultimatum. One thing appears certain: AFL-CIO is not ready to readmit the ousted International Brotherhood of Teamsters, headed by James R. Hoffa.

The convention repeated its terms for reaffiliation of expelled unions. They must meet the ethical standards required of all AFL-CIO unions. If Hoffa will apply formally for reaffiliation, IBT will be examined to see whether it fills all the requirements of the federation's ethical practices code, Pres. George Meany promised. **End**

In labor

Lithographers show exhibit, movie in institutional ad campaign

Local 1 of the Amalgamated Lithographers of America —whose members average $170 weekly and have steady work—has stepped up an institutional advertising campaign for its industry.

In addition to a $150,000 exhibit in New York City's Grand Central Station, displaying the actual process of lithography, the union has underwritten a $36,000 "art film"—in color, with jazz accompaniment by Chico Hamilton's Quintet—giving an impressionistic version of the same process. **The movie, now shown in Grand Central, will be available later for schools and TV.**

The union opened its advertising campaign last year with car cards in buses and trains and ads in trade publications.

One of the few unions to be riding the crest of an industry expansion (from $750-million lithography sales in 1950 to an estimated $1½-billion this year), ALA has seen its membership rise from 24,000 to 41,000 in the past 15 years. Local 1—which covers the New York metropolitan area—has gone from 5,100 to 8,200 during the same period. The advertising campaign is designed to help the process along, according to Edward Swayduck, local president.

Longshoremen get first benefits from 'early retirement' fund

The first benefit payments from the five-year, $29-million mechanization and modernization agreement between the Pacific Maritime Assn. and the International Longshoremen's & Warehousemen's Union were doled out to 16 longshoremen and ship clerks in San Francisco last week.

The payments—for dock workers' early retirement—came from a jointly managed fund created under a PMA-ILWU agreement signed Oct. 18, 1960, and to run until June 30, 1966 [BW Oct.29'60,p86].

Under the agreement, the shipping industry pays into the fund $5-million a year, from savings realized by mechanization and modernization, to offset "hardships" to longshoremen from wider use of automation on West Coast docks. **In return, industry management has been freed from "feather-bedding" work rules** and granted considerable leeway to set work practices and methods for handling cargo.

The first 16 beneficiaries, ranging in age from 62 to 64, were retiring voluntarily after 25 years of service.

Longshoremen have a vested interest in the fund after 15 years of service. After 25 years, this amounts to $7,920 and may be taken in a lump sum at normal retirement age, 65, or in the form of monthly retirement payments as early as age 62.

The retired workers received checks for $220 and will be sent similar amounts each month until their full vested interest in the mechanization fund has been paid or until they reach 65. Then they may decide how they want the remainder paid to them and will begin receiving the regular PMA-ILWU pension of $115 a month, plus Social Security and other benefits.

Harry Bridges, president of ILWU, says an estimated 2,000 longshoremen and ship clerks are expected to take early retirement before the end of 1962.

The early retirements will make room for some new workers, says Bridges—but he adds that the union's current membership of 15,000 could be reduced to 10,000 or 12,000 within the next five years as work-rule changes and mechanization cut down the number of jobs available on the water front.

Court orders Hershey employees to pay $20,000 in back union dues

One hundred and ten employees of Hershey Chocolate Corp. and a subsidiary have been ordered to pay $20,000 in back union dues or face discharge.

The decision by a U. S. Circuit Court of Appeals in Philadelphia is the latest development in a legal hassle under way since December, 1957, when Local 464—representing some 2,800 Hershey workers—voted to disaffiliate from the Bakery & Confectionery Workers International Union and join the American Bakery & Confectionery Workers Union. ABCW had just been created by AFL-CIO to replace the expelled BCW.

A dissident group within the local insisted that the switch in affiliation freed it of the obligation to pay dues. The National Labor Relations Board upheld it.

Now Circuit Court has reversed the board, ruling that where a local has a valid reason for changing its national affiliation—in this case, AFL-CIO's finding that BCW was corrupt—it may do so without losing its local identity or risking cancellation of its contract provisions. Since the contract at Hershey includes a union security clause, members cannot decline to pay dues, the court said.

In management

Industry is in no hurry to provide for nuclear disaster, NICB survey shows

U. S. industry is in no rush to prepare for nuclear attack, the National Industrial Conference Board finds after surveying 205 manufacturing companies.

- **Only 5% of these companies have built fallout shelters, and less than 5% plan to do so.**
- Only 40% have made plans to safeguard vital company records.
- Only a few have any plan to relocate main offices or to provide replacements for top management.

These results are not very different from those of a similar NICB survey in 1950. At that time, only 19 out of 154 companies had developed detailed mobilization plans. Generally, **only the larger companies that have several branch offices have gone deeply into planning for personnel safety, continuity of management, and remote-control headquarters.** These are chiefly in such major industries as oil and steel.

One company has gone so far as to run up a month's supply of pay checks for each employee, for use if the normal payroll system is disrupted.

However, many companies commented in reply to the NICB query that federal leadership for disaster plan is lacking, that business can't afford the outlays for plant and office fallout shelters, and that shelter programs are basically pointless.

"We are convinced," one executive tells NICB, "that all our employees . . . would run home to take care of their families anyway, so there is little point in our attempting to provide shelters in our plants."

The president of a small metals company expresses the state of resignation in small business about providing continuity of management. **"If our top men get blown up, we are sunk,"** he says. "I believe that is universally true of small business. We cannot keep spare executives available."

European brass delegates less authority than U. S. counterparts do

A corporate president in Western Europe keeps strict hold over the different functions of his firm, gives less time to the elements of "dynamic leadership" than does his U. S. counterpart.

This is one of the differences between executives in Europe and the U. S. noted in the first progress report on 11 seminars and workshops held to date in the Management Centre/Europe, Brussels. The center was opened Sept. 25 by International Management Assn., an affiliate of American Management Assn. [BW Apr. 15'61,p150].

Some U. S. corporate presidents are impressed by the smaller number of personnel with which the overseas president achieves results. As one U. S. president says: "While European companies may need more staff, I suspect that my company, at least, needs less. I am going back with an increased determination to investigate whether my company can operate just as efficiently with a ratio of staff-to-operating people nearer that of European companies."

On the basis of its experience to date, **IMA is questioning whether the open type of management discussion, which has been successful in U. S. management seminars, will work in Europe.** Overseas audiences seem to expect theory and background to precede any exchange of experience; they are not oriented toward the case history method of presenting management practice, IMA finds.

GE and Whirlpool lose directors as Ford takes over Philco

Ford Motor Co. completed its takeover of Philco Corp. this week by naming Charles E. Beck, formerly director of Ford's business planning office, to replace James M. Skinner, Jr., as Philco president. Irving A. Duffy, Ford vice-president, was elected Philco's chairman.

General Electric Co. and Whirlpool Corp., major competitors of Philco in the appliance field, **both lost directors as a result of the Ford acquisition.** The possibility of a conflict of interest was given as the reason.

Henry Ford II, board chairman of Ford, resigned as a director of GE because of "**his company's acquisition of a direct competitor,**" according to Chmn. Ralph J. Cordiner of GE. Earlier, Ford director Ernest R. Breech resigned from the Whirlpool board.

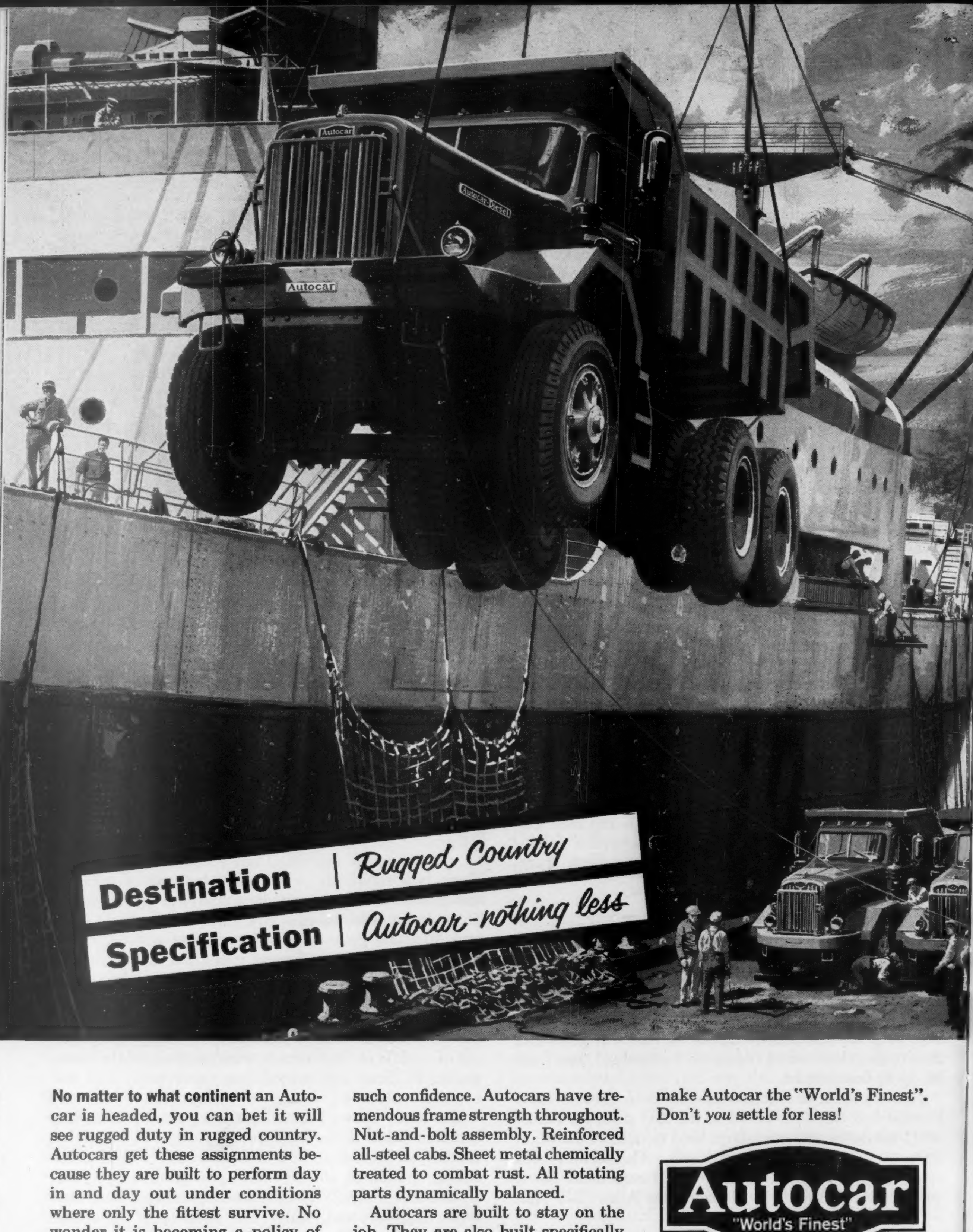
Study promotes theory that background is key to success in business

There is a significant relationship between a person's background and the success he achieves as an executive. That's the conclusion of a study by Thomas R. O'Donovan, assistant professor of management at the University of Detroit. His study was published in the Society for Advancement of Management's magazine, Advanced Management.

O'Donovan's findings confirm other theories along this line. The executives studied were largely the product of middle or high occupational origins, while lower managers (first- and second-line supervisors) had not enjoyed such an advantageous background.

The study shows that a high level of education is a common factor in the background pattern of successful executives. More than 70% of the executives studied are college graduates, and 20% have post graduate degrees. By contrast, only 25% of the lower managers have college degrees, and only 3% have post graduate degrees.

The study points out one other area of major significance: **A high level of military achievement is found in the background of 45% of the major executives,** and in only 14% of the lower managers.


Autocar
Autocar-Diesel
Autocar
Destination | Rugged Country
Specification | Autocar-nothing less

Controversy warms over non profit labs

A row is building up over a small group of little-known nonprofit research organizations working for the military

It centers on companies—like Aerospace and Mitre Corp.—sponsored by the Air Force and formed within the last few years

Their function is to advise on development of systems—weapons, satellites, space craft—and on choosing contractors

Their influence can be enormous—for one contract in the unfolding space program can well run into billions of dollars

The charges against them are many—from extravagance to unfair competition with the big aircraft and space companies

The mushrooming of nonprofit research corporations has been one of the salient developments of the postwar years. And now, one section of the group finds itself under heavy fire—the nonprofit outfits that work exclusively for the government, and were in fact set up at the government's behest.

From industry, there's a chorus of bereaved companies charging that the nonprofits are snatching all the best scientific talent by paying exorbitant salaries, and that they are getting all sorts of space contracts that industry itself is well equipped to handle. Soon, the companies wail, nonprofits will be able to grab direction of the whole U. S. space effort.

In Washington, three separate investigations are already aimed at the government-oriented nonprofits. The House Armed Services Committee is taking a look; so are the Defense Dept. and a special committee set up by Pres. Kennedy [BW Dec. 2'61,p130].

All this fuss hits only one of the three sections into which the nonprofit research corporations are customarily divided. No one at all is mad at the first and oldest group, the labs connected with universities. Nor is there much controversy over the second group, made up of labs such as Battelle and Stanford Research that work partly for the government and partly for industry.

It's the third group, working exclusively for government, that draws all the fire. Aerospace Corp., El Segundo, Calif., is the largest of these, followed by Mitre Corp. of Cambridge, Mass., Systems Development Corp., Santa Monica, Calif., and half a dozen others.

Complexity. This third group grew up when the armed services, particularly the Air Force and Navy, realized that the complexity of technical systems had outgrown their capacity to handle planning with their own personnel—at the government pay scale.

At first, R&D work was farmed out to a few research-oriented companies. But competitors soon began to complain that this gave the R&D contractors undue advantage in controlling the award of production contracts. A case in point was Space Technology Laboratories, then a division of Thompson Ramo Wooldridge, Inc. To answer such criticisms, STL spun off its systems planning section—as distinguished from its development section—and out of it formed Aerospace Corp.

But the complaints continued. As R&D increased, so did service reliance on outside advisers, and the importance of those advisers. Industry critics charge that Mitre Corp., spun off by MIT's Lincoln Labs in much the same way as STL's Aerospace, pulls far more weight now as an independent entity than it did when it was university-owned.

Fears. Over-all, nonprofit labs got something more than $375-million in government research contracts in fiscal 1961; this year the figure may top $450-million. Of this, perhaps a third goes to the nonprofits that work only for the government. But it's not the size of the sums that worries the aggrieved companies the most, it's the fear that the nonprofits will end up with all the R&D contracts let by the government.

"If something isn't done about the nonprofits, and done soon," says one executive, "industry will be nothing more than a hardware maker in the U. S. space effort."

The industry argument is that fundamentally the U. S. weapons development and space programs are a huge R&D effort, and the organization with the loudest voice in systems concepts will automatically direct the main flow of government spending in these fields.

Ideally, the industry spokesmen go on, government would retain on its own payroll the people who guide major decisions on missiles and space work. But if salary considerations make that impossible, they add, a stringent code of conduct and responsibility should be set up to insure an adequate voice for industry in basic planning.

Included in any such code, too, according to a number of industry spokesmen, should be a rule categorically forbidding non-profit employees from using restricted gov-

Industry says nonprofit aides get secret data they can put to unfair use.

ernment information for their own personal gain. Scientists working for the government directly must adhere to strict rules; why, asks industry, should non-profit executives, not be required to do the same thing?

The retorts. The beleaguered nonprofit outfits defend themselves vigorously against all the assorted charges and dire predictions.

Thus Aerospace points out that it was set up at the specific request of the Air Force in 1960. Says an Aerospace spokesman: "In addition to competence, the Air Force wanted research objectivity." He added that a nonprofit outfit with no military hardware business "is really the only one able to supply such objectivity."

In defending itself, Aerospace leans heavily on a report on Air Force ballistic missile management made last May by the House Committee on Government Operations.

The committee, referring to Aerospace's industry precursor, Space Technology Labs, spoke of the basic "anomaly of a private profit-seeking corporation sitting in a privileged position at the headquarters of the Air Force Ballistic Missile Div."

In another place, the report said: "Aerospace and Mitre stand in a significantly different position than did Space Technology Laboratories. As nonprofit corporations, their future lies in serving the Air Force, and not in exploiting the profit possibilities in industrial and defense production. Industry need not fear such companies as future competitors nor be reluctant to open their technical books to nonprofit institute personnel."

High salaries lure government scientists to nonprofit labs, says industry.

Personnel. Aerospace, whose $65-million in government contracts this year makes it the largest in its special field, has 3,101 employees, of whom slightly more than 900 are engineers and scientists. Mitre Corp., second in size with $28-million in contracts, has a technical payroll of 500.

Industry complains that these and other technical people are lured by salaries far fatter than the government allows itself to pay, with the disparity most marked at the top level. They cite the $75,000 a year salary of Aerospace's Pres. Ivan A. Getting, compared with a modest $22,500 under civil service for James E. Webb, NASA's top administrator.

Company men also claim their own personnel are lured by the nonprofits. An official of a leading aircraft company charges that Systems Development Corp. "pirates his personnel." Generally, the nonprofits retort that the hiring they do is no different from standard industry practice. "If they want somebody, they pay. So do we."

Case in point. A strong defense of the nonprofits is entered by Vice-Pres. H. Braun of Systems Development Corp., which was split off from Rand Corp. in 1956 to do operational computer programming for the Air Force's Sage System, and to train the personnel for its Air Defense Warning System. Says Braun: "SDC is not here to compete in those areas where private industry and the universities are capable of doing the job." He says SDC does only cost-plus fixed fee contracts, and that the fee "must be used in the interests of public welfare and security. We put roughly 75% of our fees into research, almost all of which is basic research in support of our contract activities." He adds that these attacks on "the frontiers of knowledge" create the challenging environment needed to attract and hold top-flight scientific people. Finally, he scoffs at the charge that the nonprofits will move into production.

Aggressive defense. Mitre Corp. is another nonprofit that ties briskly into its attackers. "The fact that Mitre has the cream of U.S. engineering talent on its payrolls is justification enough of the role it plays," says one of its engineers. "It takes an inventive engineer, not just a run-of-the-mill technician, to troubleshoot hardware with one hand and coordinate the workings of, say, a Sylvania radar with a Burroughs computer, through Bell System lines."

Mitre claims it has two basic functions.

- Giving technical advice to the Air Force in evaluating concepts, proposals, and hardware offered by industry. In this, it provides technical competence that the Air Force itself lacks.
- Coordinating military contractors, and holding proprietary information that the various companies would not share among themselves.

Mitre's Pres. C. W. Halligan, who says mildly that there are no really strong arguments either for or against the nonprofit participation in military systems, thinks perhaps the strongest pro is that "industrial companies may find it difficult to justify this type of effort over long periods. And it would be virtually impossible to expect the military services to build up the necessary talent to do all their own advisory work."

Mitre vice-president R. R. Everett admits that the nonprofits need rules of conduct, notably to keep them from poaching on industrial fields. "If a company or industrial group can manage a system more efficiently and economically than Mitre," he says, "then the business is properly theirs."

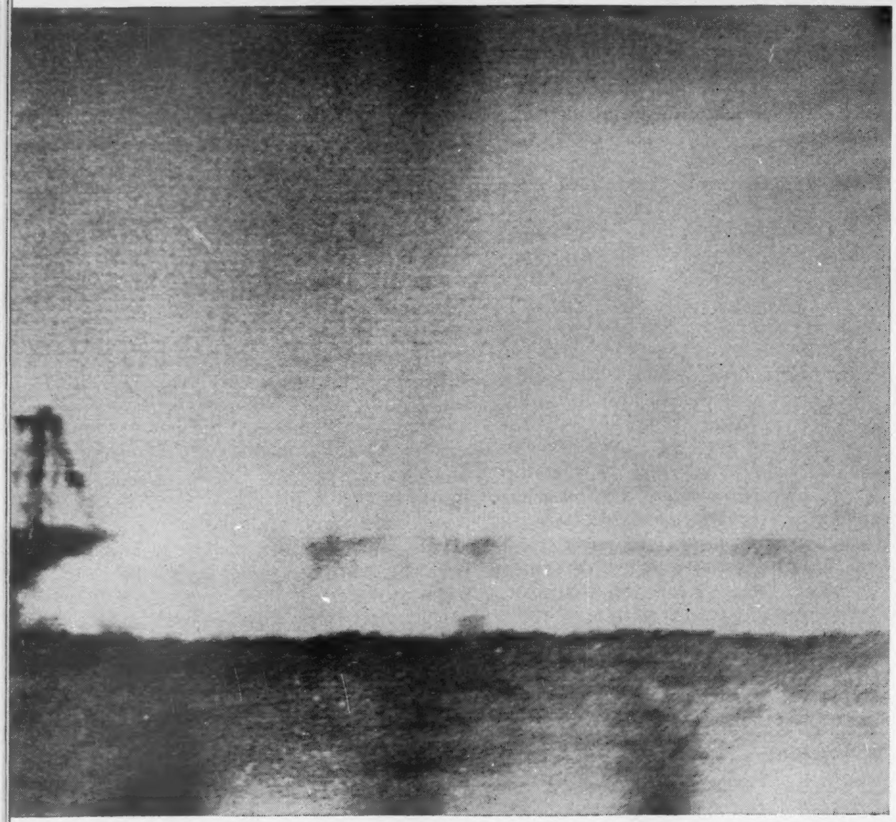
Mitre has set up these checks:

- Once bids have been received, it provides technical evaluation but the Air Force does not discuss who should be the winner.
- It bars outside consulting for its staff.
- It has set up a committee that meets regularly to discuss rules of conduct with industry in choosing suppliers, guarding proprietary rights, and dealing with classified data.

Checking up. Aerospace has a different sort of check, insisting that all employees sign a pledge to "avoid all actual, potential, or apparent conflicts of interest."

Skeptics. Despite all these disclaimers and arguments by the nonprofits, industry remains unconvinced, and claims that things will get even worse. Even the report that the Defense Dept. is drafting a code of ethics for the nonprofits may come too late to soothe its wrath.

Industry complaints are pouring in on Congress, and it seems certain that there will be a full-scale inquiry by next spring. If that happens, the industry people proclaim, Congress will find that the nonprofits are usurping responsibilities government and industry should share. **End**



Radioactive steam pours unexpectedly from the shaft 1,000 ft. from ground zero after Project Gnome blast of a 5-kiloton nuclear device near Carlsbad, N. M.

Post-mortem briefing is staged for observers by Asst. to the Defense Secy. Gerald Johnson, left, and Dr. Edward Teller, at microphone, after runaway blast.

Atomic blast underground

Gnome test shot acts up

Instead of being confined underground, it spouts radioactive steam to surface

With a blast that shook observers more than 5 mi. away and a dramatic but embarrassing eruption of radioactive steam (picture, left), the Project Gnome underground blast last weekend kicked over the traces. By escaping from its confines 1,200 ft. under the New Mexico desert, it may have set back hopes for new peaceful uses of atomic energy.

Scientists from the Lawrence Radiation Laboratory, run by the University of California for the Atomic Energy Commission, are now busy sifting the evidence, trying to determine why the test didn't act as they had expected. The laboratory is in charge of AEC's Plowshare program, in which the Gnome shot was the first step.

Well-buried. The prime objective of the $5.5-million Project Gnome was to create a source of underground heat that could be converted into electricity.

AEC sank a 1,200-ft. shaft into a rock salt bed about 24 mi. southeast of Carlsbad, then ran a horizontal tunnel for about 1,000 ft., ending with a J-shaped hook. At the tip of this hook, a small room, about 10 ft. in each dimension, was hewn out of the salt. The 5-kiloton bomb (only about one-quarter as powerful as that which razed Hiroshima) was placed in this room.

In theory, the bomb blast should have sealed off the tunnel and created a 35-ft. deep pool of molten salt. The injection of water into this mass would produce superheated steam to generate electricity. AEC had been successful in similarly containing underground blasts in weapons tests in Nevada, both in 1957-58 and in recent months.

Misbehavior. Gnome had been planned all during the nation's self-imposed three-year moratorium on

nuclear testing, and project officials were confident that all was ready. The press was invited, and the Administration invited all foreign countries to send representatives; Russia declined, but 12 other nations sent observers.

After a four-hour wait for a more favorable shift of wind (just in case some radiation did escape to the surface), the bomb was set off. The effect was unexpected. The blast tore around the curves and through the baffles in the horizontal tunnel and spouted steam and dust up the access shaft; it heaved the ground where instruments stood. Radioactive debris blew across the desert, and a road had to be closed for a while. Some test personnel had to be scrubbed down (picture) after exposure to radiation.

The shock or the neutron emission of the blast also prematurely set off a conventional explosion on the surface, a ton of explosive that had been scheduled for detonation five minutes later and 4½ mi. from ground zero. This second blast was to have been for comparison by seismographs all the way to Alaska. By going off almost simultaneously, it spoiled the test of detectors of underground nuclear blasts.

What went wrong? The Administration may be having second thoughts about conducting atomic tests in public (military tests, of course, are secret anyway). The fate of future planned tests to explore peaceable uses of nuclear energy is also uncertain, pending investigation of what went wrong last Sunday.

So far, experts have ruled out the possibility that anything was wrong with the bomb itself, and they tend to doubt that the difference in the environment of rock (salt this time, rather than the "tuff" in which previous subterranean blasts were set off) would account for the surprising behavior of the shot.

Experts theorized that the seals and baffles in the access tunnel didn't work as planned or that the heat and impact of the explosion had opened a new fissure to the vertical shaft up which it blew. Dr. Edward Teller (picture, page 68), one of Plowshare's leading supporters from the beginning, noted that the venting of the blast was confined to this shaft. He said that he had seen no fissures in the ground from his helicopter over the point of the explosion.

Substantial success? AEC won't say flatly whether the experiment was a success or a failure until the test site and its instruments can be examined thoroughly, but an early estimate indicates that about 70% of

Radioactive coveralls are removed from staff member who visited shaft-head.

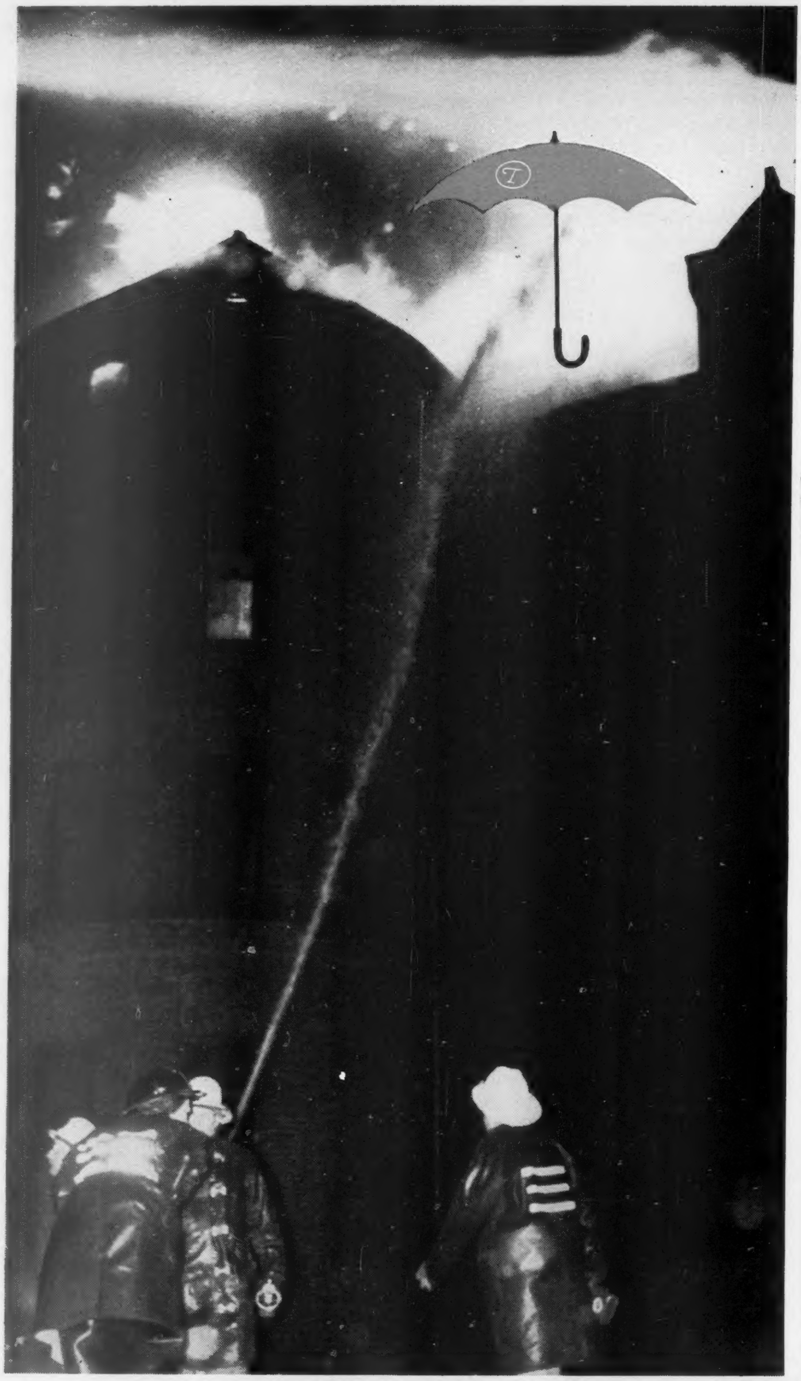
the anticipated data may have come through unscathed.

From even partial results, valuable data can be gained in other objectives of the Plowshare program:

- To determine if atomic blasts can be used to crush rock in mining, excavation, and dredging.
- To see if large quantities of crystallized radioisotopes can be produced and recovered for science and industry.
- To see if pressures from such blasts can be controlled to free oil from otherwise unyielding formations or to create underground water reservoirs.
- To find out if an abundant supply of high-energy neutrons can be trapped for use in basic research experiments.
- To calibrate seismographs precisely for earthquakes and to study the inner composition of the earth, as well as to test methods of detecting underground nuclear tests.

Long-range uses. John S. Kelly, AEC's director of peaceful nuclear explosions, says one of the chief requirements in perfecting a Plowshare-type thermonuclear device will be a further reduction of its fission action in proportion to fusion. The triggering blast of fission is what produces most of the radioactivity; a clean fusion blast is essential to such Plowshare projects as Chariot, a scheme to test excavation of navigable harbors on the Alaska coast.

More data on explosions in hard rock will also be needed before a



start can be made on the idea of extracting oil from granite-like shale beds. Oil companies including Richfield, Cities Service, and Imperial have expressed interest in a proposal to set off a 9-kiloton blast in Canada's Athabascan tar sands. They are willing to pay all the costs if suitable arrangements can be made with AEC and the Canadian government.

No excitement. One bright result of the Gnome test is that the general public didn't get excited over the result. Some companies in the area had expressed fears about damage to their property, but immediately after the blast, International Mineral & Chemical Corp., which owns the potash mine nearest the site, reported no damage at all.

IMC's mine was closed from 8 a.m. to 7 p.m. while the Bureau of Mines inspected it. But Thomas Thornton, a mine official and a 20-year resident of Carlsbad, says few people paid much attention to the blast. A few were worried about the small radioactive cloud that sneaked out, but AEC quickly announced that instruments showed negligible radioactivity in town.

Bomb design advance by Russia conceded

The Atomic Energy Commission has acknowledged that a U. S. analysis of the recent Soviet series of about 50 atmospheric nuclear explosions indicates that the Russians have made a major advance in nuclear weapons technology. The cumulative radioactive fallout from this fall's explosions will add only about 50% to the radioactive debris that filtered down to the earth after the U. S., British, and Soviet tests in 1957-58. This appears to mean that Russian scientists have made progress in solving one of the most important technological problems in bomb design—reducing the size of the atomic bomb (fission) trigger needed to set off the more powerful hydrogen (fusion) bomb.

U. S. scientists were saying that AEC had discovered an unexpectedly low fallout rate and had jumped to this conclusion some weeks ago [BW Nov.11'61,p31]. Official acknowledgement of the low fallout rate could be a tip-off that the Administration is facing hard-to-deny scientific reasoning calling for resumption of U. S. atmospheric bomb tests as soon as possible. **End**

In research

BW

Solid fuel rocket program reaches milestone with successful test of segmented engine

The nation's big rocket booster program reached a milestone last week with the successful test-firing of a 70-ton, segmented, solid fuel rocket engine that generated close to 500,000 lb. of thrust for an estimated 80 sec. **The static test was conducted in the hills south of San Jose, Calif., by United Technology Corp.** under Air Force contract.

The engine, assembled at the site by mating two solid fuel segments together, was twice the size and developed more than twice the thrust of the solid fuel engine tested by the same company last summer [BW Aug.12'61,p38]. Executive Vice-Pres. Barnet R. Adelman hailed it as **"concrete proof" that the segmentation concept will permit the scaling-up of solid fuel boosters to the multimillion-lb.-thrust level necessary for a lunar expedition.**

Air Force security prevents any detailed comparison of the results of this test with those of a similar one conducted in August at Aerojet-General Corp., Sacramento, Calif. [BW Sep.2'61,p28]. Aerojet executives said their segmented engine developed more than 500,000 lb. thrust; press reports estimated 87 sec. burning time. In neither case were precise figures made public.

UTC and Aerojet are just two of the companies—in addition to Thiokol Chemical Corp., Lockheed Aircraft Corp., and Hercules Powder Co.—that are competing for a prime government contract to develop a solid fuel rocket engine that could put a space team on the moon. Their concepts differ mainly in that Aerojet and Lockheed favor a cylindrical rocket case, while UTC sees greater versatility in one of slightly conical contour. Thiokol has been pushing the single—rather than the segmented—big solid booster concept.

The UTC segmented rocket engine was 43 ft. long with a diameter of 80 in. at the nose and 100 in. at the nozzle. It was composed of two main segments plus nose and nozzle closures containing smaller amounts of propellant. Adelman says that a new nozzle design employed in last week's test offers the promise of successful nozzle performance in an engine of any size.

Industry experts are saying that when the first multimillion-lb. solid rocket Air Force development contracts are put out for bids, the suggested diameters will probably be 120-in. and 156-in.—somewhat larger than the engines that UTC and Aerojet have been testing. But they foresee no great technical problems in scaling up to those sizes.

Program to develop two-man space capsule gets green light from NASA

The National Aeronautics & Space Administration has decided to go ahead with its projected $500-million program to develop a two-man space vehicle as a successor to the current one-man Project Mercury vehicle. **McDonnell Aircraft Corp. has received a $200-million contract for the capsule development and production work; Martin Marietta Corp.'s 430,000-lb.-thrust Titan II booster will push the two-man capsule into orbit** up to 150 miles above the earth.

Chief purpose of the two-man Mercury system, according to NASA, is to plug a hole between Mercury and Apollo, which won't be ready for flight testing until 1965-67. The two-man Mercury capsule will also be used to investigate the possibility of employing rendezvous assembly techniques for Apollo lunar flights. Rendezvous is an alternate approach to the use of giant multimillion-lb.-thrust first-stage boosters. In rendezvous assembly, a fuel package and a manned capsule would be fired separately into earth orbit where they would be hooked together for the next leg of the journey to the moon.

First orbital flights of the two-man Mercury space craft are now scheduled for 1963-64. In the meantime—in order to give space pilots experience with longer flights and to test new ideas for life support equipment—McDonnell will also produce some Mercury one-man capsules with increased life support capability. By stripping some items from Mercury and adding about 100 lb. in weight, engineers think they can extend the current capsule's safe flight time from three orbits to about 18 orbits for a single passenger.

The two-man version will preserve the now-familiar bell-shaped design. But by widening the capsule's base by 1 ft. and its height by 1½ ft., scientists will get a 50% increase in internal volume space. Adding the room for a second pilot and the equipment to support him will mean increasing capsule weight from a ton to somewhere between two and three tons. But three tons should be well within Titan II's boosting capability.

Changes in blood proteins linked to deadly form of cancer

Minor changes in the blood protein chemistry of sufferers from multiple myeloma, an incurable form of cancer, have been spotted at the M. D. Anderson Hospital at the University of Texas. The measurable changes are small, but are unquestionably associated with the cancer, according to Dr. Bruno Jirgensons.

It has been known for some time that multiple myeloma punches holes in bone and forms cancer in the marrow. The new discovery is that some blood proteins produced when the disease is present differ significantly from normal blood proteins. The differences are in chemical structure, electrical properties, and in the terminal amino acid bond.

Apparently something goes wrong when proteins are put together on nucleic acid assembly lines in the presence of myeloma. Jirgensons is working with the American Cancer Society to find out just what happens. **If the faulty protein synthesis can be traced to its source, researchers may have a clue to the formation of many cancerous growths.**

U.S. insurers invade Lloyd's domain

Hot competition for special-risk insurance starts battle over regulation—whether to tighten reins on new companies or loosen up to let old-line companies get in

Lloyd's of London, which built its reputation—and riches—by being willing to insure almost anything, is feeling the bite of new competition in the U.S. Increasingly, U.S. companies are moving into the offbeat, special-risk type of insurance situations that have long been Lloyd's exclusive preserve.

Competition for such business in the U.S. has, in fact, reached a stage that presents serious problems to the insurance industry and those who regulate its operations.

The type of insurance that made Lloyd's famous is technically known as surplus line insurance. In simple terms, it boils down to any kind of insurance that you can't buy from a regular licensed insurance carrier. The money involved is substantial: It's estimated that total surplus line premiums in the U.S. come to about $300-million, with Lloyd's accounting for over $200-million. Mostly, the buyers are corporations seeking coverage of large fire and casualty risks at tailor-made rates.

Now, U.S. companies are after a bigger share. Not only is competition sharpening, but new surplus line companies are being formed—in some cases by U.S. brokers who have started foreign companies to sell surplus line insurance in the U.S.—and the regulatory problems of the state insurance commissioners are multiplying. Last week the National Assn. of Insurance Commissioners gathered in Dallas to try to work out a formula for bringing surplus line insurance under control.

Contenders. It isn't easy. On one hand, the new and largely unregulated surplus line companies are springing up right and left. On the other hand well-established giants in fire and casualty insurance—such as Insurance Co. of North America (INA) and Continental Casualty Co. —are fighting to expand their stake in surplus line insurance.

The big companies, closely regulated by the states where they operate, claim that they have been blocked from expansion into the surplus line business. It's almost impossible for them, they say, to write a tailor-made policy. So these companies are fighting for changes in state insurance laws that will leave them free to compete with Lloyd's—and the new unregulated companies.

But state regulators, stung by several cases of fraud and insolvency among the smaller surplus line companies, are unwilling to give much ground. They want to put the new surplus line outfits on the same tight rein as the licensed companies.

Sideliners. To complicate the situation, there are "interested observers" on the sidelines:

- Several U.S. senators have threatened federal legislation to regulate surplus line carriers unless the states take action. Insurance has been considered pretty much the exclusive province of the states since the passage of Public Law 15, the McCarran Act, in 1945, but Congress is concerned about the growing activity of unregulated surplus line companies.
- The big industrial buyers of insurance have banded together in an Insurance Consumers Advisory Committee to work for liberalization of state laws, so that the big licensed U.S. companies can move into the market. Their aim is to foster competition to push down the cost of insurance.

I. Framework of regulation

State regulation has two common concerns: (1) the solvency of the companies and (2) their rates. But the methods of regulation vary widely.

The surplus line controversy involves the rates as well as the concomitant control that state insurance regulators exercise over the form in which insurance may be sold. According to Bradford Smith, Jr., president of INA, many states spell out the precise language to be used in an insurance policy. The standard fire insurance policy, he says, has 165 lines, and not so much as a comma can be changed without specific state approval. This makes a specially tailored multi-state policy virtually impossible.

New freedom. In contrast, Lloyd's and the U.S. surplus line companies —which for the most part are licensed in just one or two states— have considerable freedom in designing the policies they sell. Under most state insurance laws, an insurance buyer must make "diligent effort" to buy insurance from companies licensed in the state. But if he tries and fails, then he's free to go anywhere he wants.

In six states, there is no control of surplus line insurance; other states limit their regulation to a "white list" of companies. Only a handful —New Jersey among them—go so far as to keep close tabs to make sure that the buyer of surplus line insurance is protected against fraud.

For relaxation. To solve the competitive problem, Smith of INA wants simply to eliminate the regulations that he says have "hamstrung" his company's efforts to get into the surplus line market. He advocates a "file and use" system of rates that allows a company to go ahead with a new rate or a change in the policy without waiting weeks—or in some cases, years—for approval. The state, of course, would retain its right to reject the policy later.

At present, four states—California, Delaware, Maine and Massachusetts —have abolished the "prior approval" requirement in fire and casualty insurance. According to many insurance men, experience with the new system has been "most successful."

For clamping down. The National Assn. of Insurance Commissioners, which is working on a model bill to regulate surplus line insurance, has veered off sharply in the other direction. The NAIC Unauthorized Insurance Committee has come up with a fourth draft of a proposed "Non-Admitted Insurance Act" that would clamp down on the surplus line companies without liberalizing the regulations covering the licensed carriers.

Though NAIC is on record against

"prior approval," Raymond A. Severin of American Metal Climax Co., who heads the insurance buyers' committee, calls the proposed bill "the same old hogwash."

Middleground. Charles R. Howell, New Jersey's Commissioner of Banking & Insurance, seeks a middle ground. "What we need to do," says Howell, "is both to tighten and loosen regulation, and at the same time." Howell wants an effective check on the surplus line companies, but he also wants INA and its cohorts free to compete.

II. On Broadway and offbeat

While the very nature of surplus line insurance involves covering the unusual and offbeat risk, the bulk of the premium volume comes from insuring fairly mundane items.

But from time to time, the surplus line companies do get into some special situations. One outfit with a penchant for this kind of business is Canadian-based Newfoundland American Insurance Co., Ltd., which has assets of about $5.2-million.

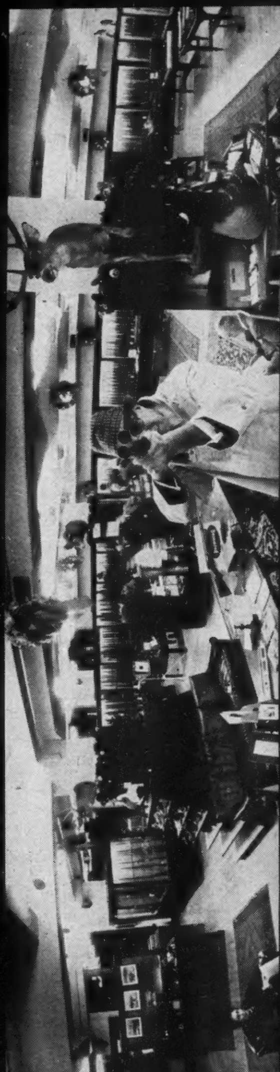
About a year ago, when a new building for Massachusetts General Hospital was already well under way, hospital officials discovered that a small triangular section of land on which they were building was city property.

Protests could have blocked construction indefinitely, but Newfoundland American stepped in with a $100,000 policy to insure completion of the building—including a provision to pay the cost of any public hearings. According to Boston insurance broker Maurice H. Saval, who controls the company, "We gambled and won."

Similarly, it's becoming increasingly common for Broadway producers to take out a policy to insure the appearance of their stars. This used to be almost the exclusive province of Lloyd's—which recently lost $2-million on Elizabeth Taylor during the filming of Cleopatra [BW Oct.28'61,p104]—but now U. S. companies are moving in. For example, Employers' Surplus Lines Insurance Co. insured the appearance of both Julie Andrews in Camelot and Elaine Stritch in Sail Away.

Rewards. For taking big risks, the surplus line companies—when they're lucky—get a nice return. As just one example, last year Employers' Surplus posted a gross underwriting profit of $252,000 on an earned premium volume of only $827,000. Other companies have done equally well, which helps explain why the big insurance companies are so anxious to get in. **End.**

8th floor: A sportsman's dream world of camp equipment and fishing tackle; flies galore tied by hand



7th floor: The gun room, pride of Abercrombie, where you can pay $3,400 or $19 to fit your purse or skills

6th floor: Books, prints, paintings—with an accent on the outdoor world. Also, a tailoring workroom

5th floor: Men's furnishings and roughwear—parkas copied from the Eskimos; even 65¢ bandannas

Caterer to the outdoor man

Abercrombie & Fitch's eight floors (above) are a hunting ground for sportsmen seeking equipment and garb for anything from a safari to a croquet match

Ask any amateur sportsman what Abercrombie & Fitch Co. stands for, and he's apt to answer: It's the store that has everything. Officials themselves would be the first to disclaim this: Abercrombie doesn't try to outfit teams, for example. But it's quite likely that nowhere else could an individual walk in and come out with aluminum snake leggings, camel saddles, equipment for shark harpooning, as well as more workaday leisure and outdoor items.

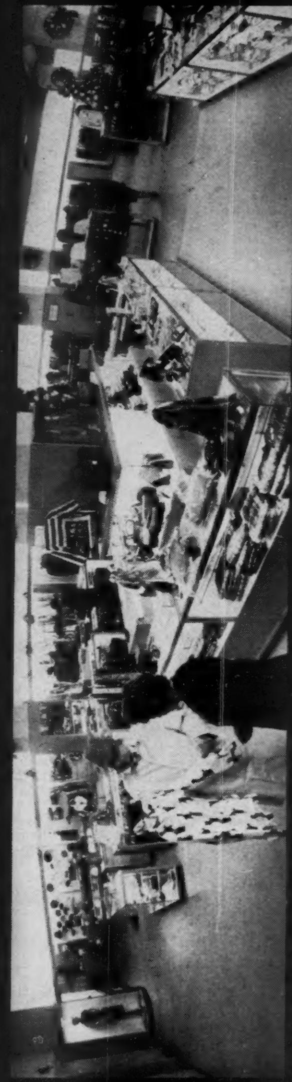
"We would describe Abercrombie & Fitch as the place where a sportsman can get anything he needs—under one roof," says Pres. John H. Ewing (cover). "Other stores may carry similar items for 85% of our merchandise. We have the other 15%, too, and it's all here." Or, as Board Chmn. Otis L. Guernsey puts it, "It's the grouping of all this merchandise that makes us different."

Big game. This shop on New York's Madison Ave., with stores also in San Francisco and Chicago, has achieved what many retailers would give their molars for: a special character. Probably every famous hunter

5th floor: Men's furnishings and roughwear—parkas copied from the Eskimos; even 65¢ bandannas

4th floor: Men's suits—a quality line for $230; or moderately priced light-weights at $58; shoes, jackets

3rd floor: Luggage, much of it A&F's own invention; roughwear for the hardy-hearted sportswoman



2nd floor: Women's wear—for the sports spectator; attractive but conservatively styled dresses, shoes

1st floor: Games, china, cutlery—a treasury that makes this floor a sort of adult toy store

Everything the outdoor man needs—all under one roof—is Abercrombie & Fitch's claim to distinction

from Theodore Roosevelt down has shopped there; it has equipped explorers such as Richard E. Byrd. Dwight D. Eisenhower has worn Abercrombie wading boots. And it holds an irresistible attraction for small boys.

Right now, its cash registers and charge account clerks are working overtime. Christmas means big business at Abercrombie's. It does some 40% of its total annual volume in the months of November and December, says Ewing.

This holiday season wears an extra-festive glow. Sales for 1960 dropped off to about $15.5-million from $16.5-million in peak 1959. This fall, they took a big jump. Now the company hopes for a record or near-record year. Profits, too, which lagged last year, may climb.

Special niche. Sportsman-merchant Ewing, who became president last January, agrees with Guernsey on how the company has achieved and held its special niche in a fast-changing world. "By sticking to our knitting," says Ewing briskly; "by not trying to be all things to all people."

True, in defining sportsmen's needs, they stretch a point. The famous 7th floor gun room, the 8th floor camping and tackle departments, the "roughwear" departments for men and women, establish the store image. But you can buy chinaware, glass wear (trimmed with a sports motif), leather goods, gifts and games for indoor leisure hours. Women can find afternoon dresses of classic styling. Men can outfit themselves with business suits (even sportsmen may go to business), or buy sporting books and paintings.

But they do draw a line. "We don't carry women's formal dresses," Ewing explains, "though we could sell them." Neither do they go in for high-fashion apparel. "It wouldn't be in character," Guernsey says, and adds, "Our individuality is the only thing we have to sell."

Quality comes first. There's a bit of paradox in the Abercrombie operation. Its basic lines have changed little over the years. In insisting on the old-fashioned retail virtues of quality and service, it runs counter to the latter-day merchandising concepts of fast obsolescence, fast turnover.

At the same time, it seizes on the new, even the faddy, on occasion. It follows new sports developments avidly—underwater swimming, for example. It made a killing a few decades back on the mah jongg

Extra comfort for the exacting sportsman: A customer tries on an S. E. Woods down-filled "chill dodger" vest.

craze, went to town this year with the Kennedy rocking chair. This fall, it introduced the Targeteer, which tosses a beer can into the air—an item that has taken marksmen by storm. "We can't keep it in stock," Ewing says.

Quality has been a store byword since the start. "Price is the second question we ask our suppliers," Guernsey says. "Quality is the first."

Personal touch. The same holds for service. To Ewing, service means quick delivery, safe delivery, a liberal returns policy. It means carrying hard-to-find items: Where else would you go for a boar-hunting spear? It means carrying items out of season. "We sell heavy coats in the summer," Guernsey says, "for people who travel to Norway."

But service is also a very personal matter, from the board chairman down. "Someone writes in, 'Send me a pair of shoes like the ones I bought four years ago'," Ewing illustrates. "We dig out his old order." "A man called me last Christmas," Guernsey says. "Nobody I knew. He hadn't received a $250 order. Nobody could find it. One of our salesmen used his head, located it at the man's hometown Railway Express office. Only, he hadn't bought it from us at all." In the Christmas rush, buyers—even Ewing himself—are pressed into service to make a delivery in person.

Bait for customers. Most changes that have come have grown out of the changing market. The store wears the unmistakable stamp of the carriage trade, and there are fewer of the really plush customers these days.

To compensate, though, a new market is coming in. "The times work for us," Guernsey feels. More money over a broader base, more leisure, these bring in more customers. "Our market has broadened immensely since World War II," Ewing agrees.

Yet luring in new customers isn't easy. Quality and service add up to an expensive operation. Ewing concedes that Abercrombie is synonymous with high prices to many people. Its markup may be a shade higher than some stores, but, quality for quality, A&F insists its prices are competitive. "They would have to be," Guernsey argues, "or we wouldn't have lasted this long."

"Sometimes we can show complaints aren't justified," Ewing says. "Take the woman who wrote us she had found an identical blouse for a dollar or so less at another store. But our blouse had longer sleeves. Once we pointed out the difference, she was satisfied."

Small fry welcome. A carriage-trade reputation can scare away some new customers; this is one of Abercrombie's concerns. "We won't lure them in with low prices. We have no budget shop. We won't run splash ads for storewide sales," Ewing says. "But we do try by advertising and word of mouth to persuade the timid customer that he is welcome."

An ad campaign that the store has been running this year makes the point. It consists of a series of cartoons, poking mild fun at the old store. An example: A salesman leans over the counter to talk to a small boy. The caption reads, "Yes, sir, one bobber, two sinkers. And would you like to look at a minnow trap?"

Actually, Ewing says, by no means all of Abercrombie's customers spend a fortune in the store. A survey made several years ago showed that nearly 50% of its customers shop there once a year and spend under $25.

Longer season. From the holiday sales surge, it would be a fair deduction that Christmas brings in many of these once-a-year shoppers.

Seasonality has always plagued the company. The slump starts after Christmas. In June, the summer business perks up, dribbles off in July and August. Come September, the fall pickup starts, gathers momentum fast.

Partly to offset this wavering sales curve, the company started opening seasonal branches a few years ago. It had long had a branch at Hyannis, Mass., which it closed during the war. This reopened in the late 1940s. In the last few years, it has had a summer shop in Bayhead, N. J.,

Safari bound: Teddy Roosevelt—in front of Abercrombie sign—inspects A&F equipment for expedition to Africa in 1909. The Smithsonian has his trophies.

Southampton, N. Y.; winter shops in Palm Beach and Sarasota. These are small shops, with relatively light overhead, and they help take up the seasonal slack of the big-city stores.

Exclusive items. Like most retailers, the oftener Abercrombie can get an exclusive product, the better it likes it. It designs some of its own products itself. Its buyers scour Europe for the rare item; Ewing estimates it did some $2-million at retail in imports last year. But a new problem is developing here: The old-time European craftsman is dying out.

The famous Abercrombie catalogues account for over 10% of the business—and this is a costly form of promotion. The catalogues absorb 40% of the total advertising budget. The big ones go to 350,000 people, all over the world.

On-the-spot training. There are other problems, but they are problems all retailers face. How do you inculcate the service tradition in new personnel? "By preaching, preaching, preaching," Guernsey says—and by personal example. How do you make an expert of every salesman? "We don't," Ewing admits. Many of the top personnel are experts, and the company works hard to build up expertise down the line. To this end, it sent one of its men on safari; last year, Ewing took three on a fishing trip.

Few changes. For every difficulty, though, executives find compensations. If turnover is slow, merchandise can be carried over from season to season. Hence markdowns run relatively low—some 2% storewide, Ewing says, against 6% for many department stores.

Ewing, who worked his way up from page boy to the presidency, anticipates no great changes under his stewardship: maybe more advertising emphasis on apparel; possibly the addition of children's lines. But why change a formula that works? "Someone could come in here with hard-sell tactics and make a mint—for a few years," he says. "But after that, we'd be through." If quality and service come high, they still bring what Abercrombie most values: a satisfied customer.

Team spirit. More than most shops, Abercrombie & Fitch from the beginning has reflected the enthusiasms of those who have run it. Ezra H. Fitch was a lawyer who turned sportsman in his spare hours. Co-founder David T. Abercrombie was an ex-prospector, miner, inventor, and sportsman. Abercrombie pulled out of the partnership in 1907 to set up a shop under his own name, but left the "Abercrombie" in the firm name. Guernsey, once a Yale football star, has "played at just about all sports." Ewing rides to the hounds, works in some quail hunting when he has the time.

It seems likely that the market for this kind of merchandise—and service—will grow. Store officials like to tell of the man who dithered over a $70 suit for himself, decided against it. On the way out, he spied a $300 tiger skin. "Just what my boy at Princeton would like," he said, and bought it without a quaver. **End**


Wells Soap
Sass Plumbing
Chas. Wilson
C & G. Construction
Systems Regulators
Mid-State Oil
Wm. Lund
Park-Sands. Inc.
Fairfax Chemical
Wells Soap Co.
Consolidated Soap

Bringing mistletoe to masses

Keeping old tradition alive complex but thriving business for two women

Enterprise headed by Miss Patricia Murphy (center) and Mrs. Maxine Rosen (left) have brought the delicate mistletoe plant to store counters across the nation.

Before dawn each morning for the past two weeks, ranchers around Goldthwaite, Tex., have headed toward the range to strip mesquite and Spanish oak trees of a fragile parasite with dull green leaves and pearl-toned berries. Within 24 hours their harvest—mistletoe—lies gaily packaged on store counters across the country.

Ten years ago, only a few florists and scattered stores sold mistletoe—and then generally at 50¢ a sprig. Nowadays, though, in the three weeks before Christmas you can walk into any one of more than 10,000 food and variety stores and buy packaged mistletoe at 29¢ or 59¢ a bag. Even Eskimos buy it in Anchorage, Alaska.

Complex operation. That's due to Patricia Murphy Frank, wife of a Detroit, Mich., plastics manufacturer. Her Patricia Murphy Co. supplies about 80% of the country's prepackaged mistletoe. To do it, Miss Murphy and her partner, Mrs. Maxine Rosen, work all year to put together a complicated supply and distribution network that bears fruit in a period of only about two weeks. Actual harvesting, packaging, and delivery of 60 tons of mistletoe is done mainly between Dec. 5 and Dec. 17.

Even after 10 years in business, delivering mistletoe is still a gamble for Patricia Murphy. Mistletoe is a delicate plant. It bruises easily. It mildews. It freezes. It wilts in the heat. And delivery is contingent on airline timetables that are not always dependable when December brings bad weather.

Advance planning. To get mistletoe to thousands of stores at just the moment consumers start thinking of decorating Christmas trees and homes takes 50 weeks of paperwork. Miss Murphy and Mrs. Rosen start lining up orders and clients in February. Variety store orders are in by June; supermarkets come later.

After that, paperwork swells at company headquarters in Detroit. Flight schedules must be drawn up for each shipment. To compound details, most chains request that each outlet order and be billed separately.

The source of supply is a 10,000-sq.-mi. area south of Dallas. Ranchers under contract bring the mistletoe to designated gathering stations. It's then shuttled to the Murphy packaging plant in Goldthwaite and by air and rail from Dallas. Individual air orders range from 4 lb. (the air freight bill may exceed the price of the shipment and be written off as goodwill) to over a ton. Half the harvest is delivered by air.

Chance beginning. Of their success, Miss Murphy says, "It's another example of a prepackaged item being more economical in the long run." Actually, the business began by chance.

In September, 1951, an Arkansas chicken rancher offered Lewis Frank, Patricia Murphy's husband, a supply of mistletoe to decorate a novelty Christmas ornament Frank has designed for his plastics company. Frank urged his wife to set up a company and package the mistletoe "just to keep busy." Prior to 1951, only a few wholesalers shipped bulk mistletoe to florists and a few stores. Mistletoe is found throughout the Southwest, so a supply was available.

Miss Murphy had no trouble lining up two major food chains, and within weeks orders totaled 150,000 bags. The rancher had promised to start shipments Dec. 3. Instead, at 2 a.m. the morning of Dec. 3, he telephoned to say his neighboring ranchers had collected almost all the mistletoe in that area. He could supply only a few boxes. By the time it had located an alternate supply in Texas, the Murphy company was four days late on its initial orders.

The uncertainties in the mistletoe business cause profits to vary sharply. And mass merchandising means profits are based on a low margin to begin with. That's one reason the Murphy company is not content to handle only mistletoe. "Obviously it's a limited business," says Miss Murphy. "It's a scramble all year long to look for new outlets." Although tons of bulk are still sent to florists and wholesalers, the Murphy company already has most of the market.

Other lines. The two women are alert to new ideas and already about 30% of their business comes from prepackaged dried flowers, holly-decorated bow ties; and a product they say they don't believe in—artificial mistletoe for stores that can't move perishable goods fast. **End**

Is oil company in retail trade?

Issue comes to focus in two cases involving price wars in gasoline market

A showdown is coming on one of the stickiest questions of price competition: May an oil supplier legally cut prices to dealers who are involved in a price war, or is he guilty of price discrimination under the Robinson-Patman Act?

Last week Federal Trade Commission examiner Edgar A. Buttle said "the supplier may not cut prices." He was conforming with an earlier decision of the full FTC. However, a U. S. Court of Appeals has since held that FTC erred in this case. So if the full commission reaffirms its stand by backing Buttle, it must also be ready to take the earlier case to the U. S. Supreme Court.

Two separate oil companies are involved, but the issue is the same.

Georgia case. Buttle's ruling, subject to ratification by the full board, is that American Oil Co., a subsidiary of Standard Oil Co. (Ind.), illegally gave price discounts to dealers in Smyrna, Ga., where a price war had broken out, without granting similar cuts to dealers in Marietta, 4 mi. away.

American said it cut prices in good faith to meet competition. This had been a recognized defense under Robinson-Patman, but Buttle rejected it, in line with an apparent view of FTC that price wars are retail affairs and the oil company is not selling at retail.

Florida case. That was the finding that threw the previous case into court. Sun Oil Co. gave a discount to a single Jacksonville (Fla.) dealer who was caught in a price war. When hauled before FTC, Sun argued that its price cut was made in good faith to meet competition. FTC said it was no such thing, because a supplier such as Sun is not in retail competition.

Three circuit court judges together overruled FTC. They held that the actual competitors in the price war were Sun and another oil company, that Sun's dealer was merely a conduit through which Sun was competing for gasoline sales on a local level. **End**

In marketing

German school buys a 'street' of stores for its students to practice in

It looks like a supermarket, and it is—with a difference. All the young people on both sides of the check-out counter (picture) **are students in a food-retail school in Nuwied, Germany.**

The school has just celebrated its 25th anniversary by acquiring a whole new "street," with a variety of types of stores for its students to practice in. It is believed to be the only institution of its kind in Germany.

Politz takes a second swipe at Advertising Research Foundation

Advertising research was the battleground again this week for two well-known combatants who have had a go at each other before: the Advertising Research Foundation and Alfred Politz, president of Alfred Politz Research, Inc. **For the second time within a year, Politz has severely castigated the ARF.**

Politz, in a monograph sent this week to 1,500 ad executives in the country—but not to the Advertising Research Foundation staff—charged, among other things, that ARF rides "fads," such as motivational research, publishes an "unnecessary" magazine (Journal of Advertising Research), and engages in competitive research at, Politz implies, cut-rate fees. **His remedy is drastic: close up ARF or abandon claims that it is impartial and noncompetitive.**

ARF, which is supported and governed by 325 member advertisers, agencies, and media, was attacked by Politz last April, but less directly and specifically, according to A. W. Lehman, president of the foundation. ARF asked Politz to give his views directly to its board, Lehman says, but he never replied. In June, still bothered because it had been criticized by an established practitioner of market research, ARF's board of directors reviewed its position.

After studying the report of a special committee set up to go into the April criticism by Politz, ARF this week issued a statement saying, **"the board decided that the best interests of the foundation were the best interests of industry . . . and that no change in foundation procedure was warranted."** And this is still its answer to the latest lambasting from Politz.

Buying intentions of Christmas shoppers probed in survey of urban husbands

To determine the buying intentions of the average Christmas shopper, a manufacturer of gift wrapping paper and ribbon has sponsored a study of the gift giving habits of 250 husbands in five major markets.

From telephone interviews with men in Chicago, Philadelphia, Los Angeles, Dallas, and Atlanta, the **Chicago Printed String Co. decided that the average family will spend $161 on Christmas presents this year.** Of this figure, the survey showed, the wife will spend $115.35 and the husband $37.60.

Although the wife does the bulk of the shopping, purchasing 25 of the 30 presents bought by the average family at Christmas, the husband accounts for a quarter of the dollar expenditures because of his more expensive buying habits. The average price paid for each present purchased by the husband is $11.38 as compared to $4.58 for the average purchase of the wife.

Clothing is the most popular item on the shopping lists of husbands. **Thirty-nine percent said they plan to give their wives apparel, and half of these plan to buy a coat, mink stole, or other fur piece.**

Clothing also topped the "most wanted" list of husbands. When asked what they would like to receive this Christmas, **men listed shirts, ties, suits, and socks as their four most wanted items.**

The study was conducted for Chicago Printed String by Market Facts, Inc., Chicago.

Marketing briefs

Gimbel Bros. last week announced plans to acquire **Ed Schuster & Co.**, a retailer with four stores in Milwaukee and one more under construction. The addition of these four stores will give the Gimbel chain a total of 45 outlets.

Hotpoint Div. of General Electric is issuing a written guarantee permitting customers to **replace new appliances within 90 days of purchase** if not satisfied. Under the program, the dealer replaces the appliance at no cost to the customer. Hotpoint claims it is the first appliance maker to extend such an offer.

Four major downtown Fort Worth hotels are offering **rooms for $3.50 a day**, to be used by leg-weary shoppers between 8 a.m. and 8 p.m. The city serves a vast number of west Texans, some traveling 300 to 400 miles for a day's shopping in Fort Worth.

International outlook BW

December 16, 1961

Guinea threatens U. S. operations

Important U. S. and Canadian aluminum projects in Africa are in trouble.

▪ **In Guinea, the consortium headed by Olin Mathieson Chemical Corp. is in a bitter wrangle with Pres. Sekou Toure's extremely leftist government.** The dispute, largely over the government's foreign exchange restrictions, threatens to end the consortium's $150-million mining and refining operations at Fria. If Toure expropriates the properties, Olin will be protected by a $72-million U. S. guarantee on the company's 48.5% interest in the scheme. Other partners are West European companies.

▪ **Also in Guinea, Aluminium, Ltd., of Canada has withdrawn its personnel** in the past two weeks from its bauxite mining projects at Boke and on the Los. This follows disagreements with Pres. Toure over an expansion program on which the company reneged [BW Nov.25'61,p81]. Alcan has invested about $23-million. Reportedly with the assistance of Czech technicians, Guineans now run the mines.

▪ **In Ghana, the Volta River project in which the Kaiser consortium is deeply involved remains up in the air.** Pres. Kennedy still hasn't decided whether to help finance the $178-million project. His reluctance stems from Pres. Nkrumah's Marxist policies at home and abroad.

Olin Mathieson's predicament in Guinea is vitally important. If Guinea nationalizes the mine, of course, the U. S. taxpayer will suffer. That will make it difficult for Kennedy to extend a guarantee on the Volta project in Ghana.

Bearing heavily on the situation is Pres. Toure's pressure on the U. S. government to finance a huge $300-million dam at Souapiti. At least for the time being, Kennedy has rejected the proposal.

In response, Toure has suggested the Soviets will finance the project—if the political climate is made attractive for Moscow in such ways as forcing Olin Mathieson and its partners out of Fria.

Washington set to call the bluff

On this score, **Washington appears ready to call Toure's bluff.** U. S. officials are hopeful that Toure's relatively unsuccessful experience with Moscow's promises in the past will make him wary. If Toure goes ahead with the Russians, Washington hopes that Moscow will get into at least as much trouble as it has had with the Aswan project in Egypt, and with as few thanks. **Furthermore, this could be a useful object lesson to other African nations** that are tempted to blackmail the U. S.

French refuse to talk Berlin with Soviets

Washington is disturbed over France's **unwillingness** to try negotiations with the Soviet Union on a Berlin settlement.

The U. S. hoped France would give in at this week's meeting of Allied foreign ministers in Paris.

It was thought that West Germany's Chancellor Adenauer—after reaching agreement with Pres. Kennedy on the desirability of talks—could persuade Pres. de Gaulle to agree.

But the French are standing pat.

Washington feels that continued Allied disagreement on how to approach Moscow poses two dangers:

▪ The first is that the West Berliners may begin to flee the city in large numbers, or even touch off hostilities by mass assaults on the Communist wall dividing Berlin.

▪ **The second is that Premier Khrushchev might conclude the West can't or won't negotiate.** In that case, he might go ahead with his separate peace treaty with East Germany. That would give East Germans control over Allied access routes to Berlin and thus put East and West again on a collision course.

In an attempt to forestall this, the U. S. and British ambassadors in Moscow will seek meetings soon with Khrushchev. If Khrushchev or Foreign Minister Gromyko indicates that there's a basis for negotiations, the French may come around.

Negotiations without France?

In Washington, there's talk for the first time that the U. S. and Britain may decide to enter formal negotiations on Berlin without French participation.

Washington and London may decide it's too risky to expose the Western split in this way. If so, it's even possible Pres. Kennedy would agree to another face-to-face meeting with Khrushchev.

The President to Latin America for check on progress

While treating the crisis in Berlin and the Congo (page 25), the Administration hasn't taken its eye off what is probably the most enduring, complex, and occasionally most exasperating foreign policy problem area—Latin America.

▪ Next week, Pres. Kennedy takes off for a quick tour of Venezuela and Colombia. **A main purpose of his trip is to publicize and check on the Alliance for Progress,** the 10-year economic development program, and what reforms have been started under its aegis.

▪ **U. S. officials are encouraging the opposing forces in the Dominican Republic to get together** to form a stable coalition government and preclude either a right- or left-wing dictatorship.

Kennedy chose Venezuela and Colombia for his visit because they have pushed ahead with reforms. Venezuela is turning a land reform law into practical benefits, including 2.5-million acres of government-appropriated land to be doled out to low-income families. In Colombia, the government is just beginning to put a land reform law into effect.

Elsewhere, turning paper laws into tangible benefits has been slow, mainly because of vested interests and local politics. Some countries haven't made a significant reform move since Kennedy promulgated the Alliance for Progress last March.

In the Dominican Republic, attempts to reconcile opposing groups had fallen apart by midweek, with desperation mounting on all sides. This could lead to an eruption and a radical move either right or left. At the moment, the military, led by Gen. Rodriguez Echevarria, is in the saddle.

The U. S. has two levers in this situation. If a dictatorship is attempted by force, the tacit threat of U. S. intervention remains. And, economically, the U. S. is offering a large part of Cuba's sugar quota in the U. S. market if the Dominicans can get their politics straightened out.

Red China has its foot almost in U.N. door

For practical purposes, question is not whether Chinese Communists will be seated, but when and under what procedure. U. S. is fighting to delay action

Nationalist China's T. F. Tsiang holds U. N. seat demanded by Communists.

U. S. delegate Adlai Stevenson is trying new tactic to delay Communists' entry.

In American politics today, there is perhaps no more complicated and emotional issue than the subject of Communist China. The controversy centers around two questions: recognition of the Peking government by the U. S. and representation of China in the United Nations.

This week, the U. N. General Assembly is debating China's representation. The debate has not been so bitter and violent as expected, largely because the battle appears to be over before it has been fought. Few delegates have opposed outright the seating of the Communist delegation and many accept it as inevitable. The speeches have focused on when, under what circumstances, and with what procedure.

Probable effects. It's not likely that the Communist delegation will be seated during this session, but it may happen in a year or two. That event will have profound effects on the U. N., on the U. S.' relationship with the U. N., and possibly on Russian-Chinese relations:

- It will give the international Communist movement another strident and presumably obstructive voice in shaping U. N. action. It also will put the second full-fledged Communist member into the influential Afro-Asian bloc (the first was Outer Mongolia).
- It will weaken an already faltering U. S. commitment to the U. N. as a channel for implementing U. S. foreign policy [BW Nov.18'61,p118].
- It could easily bring further into the open the ideological and political split between the Russians and the Chinese.

Historical background. The question of Chinese representation has its roots in World War II. When the U. N. originally was conceived and organized, China was given a permanent place in the Security Council. The feeling was that the big Asian nation would evolve into a leading power.

Then, in 1949, the Communists came to power, driving the Chiang Kai-shek government to refuge on Taiwan (Formosa). Shortly after, the Communist Chinese entered the Korean War, for which they were condemned by the U. N. Later, they invaded Tibet. During this period, the Peking government also demanded that the U. N. recognize it as the government of China and seat its delegates in the place of those from Taiwan.

U. S. opposition. For a decade, the U. S. has led the resistance to this demand. Last week, Adlai E. Stevenson, U. S. ambassador to the U. N., reiterated the U. S. position. He argued that the Peking government does not rule all of China, that it does not represent the will of the Chinese people, and that it has not shown its willingness to honor international obligations. In addition, Stevenson warned that bringing the Communist Chinese in would adversely affect U. S. public confidence in the U. N.

Today, however, resistance to letting Communist China into the U. N. has almost vanished because:

1. The Korean and Tibetan aggressions have faded in the minds of many U. N. delegations.
2. The government of Mao Tse-tung has consolidated its power on the mainland and exerts considerable influence throughout Asia.
3. Total membership in the U. N. has more than doubled, with the great majority of the new members coming from the Afro-Asian bloc. Many of them say Communist China should have the seat in the U. N.
4. More and more Western nations are trading with Communist China and wish to keep on good political terms with it.
5. A number of nations feel that a possible way to get Communist China to honor its international obligations is to bring it into the U. N.

New maneuver. Until now, the

U. S. kept the U. N. from even debating the issue by proposing and winning a moratorium on the question. This year, confronted with rising pressures to bring in the Communists, the U. S. switched tactics.

The U. S. is attempting to get the representation question declared a substantive, rather than a procedural, issue. As a matter of procedure, a simple majority would decide which delegation represents China. On the basis of the steadily declining vote to maintain the moratorium, the Communists would stand a good chance of being accepted.

If the issue is declared substantive, however, the vote to seat the Peking delegates would require a two-thirds majority—which the U. S. doesn't think can be mustered at this time. The vote on whether the issue is substantive or procedural, which should come shortly, requires a simple majority. The debate indicates that there are enough votes to declare it substantive.

The American delegation does not have a veto in this controversy. The veto applies only in the Security Council. The General Assembly approves the credentials of delegates from a nation that already is a member of the U. N.

Alternative procedures. Although the U. S. expects that the Peking representatives will not be accepted this year, the tenor of the debate indicates that they will be voted in next year or possibly the year after. It could come under two circumstances:

- Ousting the Nationalist Chinese delegation and replacing it with the Communists. This doesn't seem likely since only the Communists and a few neutrals favor it.
- Compromise, the "two Chinas" solution. Under it, the Communists would get the Chinese seat, and the Nationalist government would be admitted as a new member. Many neutrals and some U. S. allies support this.

There are at least two unknowns in this situation. First, the Communist Chinese have said little lately on their desire to be in the U. N. Moreover, they say they will not accept the two Chinas solution. Whether they would stick to this if offered a compromise is not known.

Second, the attitude of the Russians on Communist Chinese membership is far from clear. With the diplomatic break with Albania highlighting the cleavage in the Communist empire, the Russians may be most reluctant to see their foremost rival for leadership of the Communist bloc obtain the U. N. forum to propound its own policies. **End**

Mexico: The bloom is off

Mexico's boom lost some steam this year. The economic growth rate slowed to around 4%, compared with 5.7% in 1960 and an average 5.8% in the previous five years. Though better than most of Latin America, this meant that economic expansion is barely keeping ahead of the 3% annual increase in the country's population.

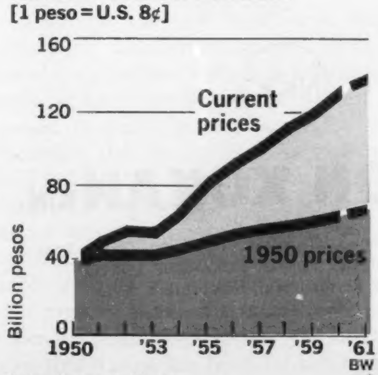
The setback largely came from a loss of confidence among U. S. and Mexican investors. Local investors not only held back, but shipped funds out of the country. Altogether, U. S. direct private investment (including reinvestment) dropped an estimated 50% from its previous annual rate of $100-million.

Politics. At the root of the trouble were politics—both Mexican and Cuban—and official moves toward nationalization and Mexicanization of industry. Investors balked at the ambiguous leftist statements of Mexican officials and the possibility of a spread of Castroism. This year's Mexicanization law for the mining industry [BW Mar.4'61,p84], which followed government purchases of U. S. and Canadian-owned electric utilities and other private companies in 1960, raised doubts about the future for private business.

Reserves drop. U. S. tourists, a major source of dollar income, stayed away in droves after the Cuban invasion fiasco cast a pall over the whole of Latin America. Gold and dollar reserves dropped from $410-million at the end of 1960 to $280-million in April, stirring fears of devaluation.

But Pres. Lopez Mateos helped restore investor confidence by issuing some middle-of-the-road policy statements. By Sept. 1, reserves had climbed back to $382-million. The International Monetary Fund provided a standby credit of $90-million, and the Export-Import Bank upped Mexico's credit line from $90-million to $180-million. Tourists have started coming back in force and Acapulco's posh hotels are reportedly well booked for the holiday season just ahead.

Gross National Product
[1 peso = U.S. 8¢]



Data: Banco de Mexico

Next year's business activity may show some improvement if—as expected—the country's gold and dollar reserves are high enough by Jan. 1 to tide it over the subsequent seasonal decline.

Government spending. Pursuing a balanced fiscal policy, the government reduced spending in 1961 to keep outlays in line with lower tax revenues from business. This further aggravated the slump in retail trade, construction, and manufacturing. Petroleos Mexicanos (Pemex), the government oil monopoly, halted work on an array of petrochemical projects. Extensive upward revision of tariffs, plus licensing of machinery imports, cut over-all imports slightly below the 1960 level.

Inflation eased. The drop in government and private investment eased inflation. Mexico City's wholesale price index, which rose an average 5.5% annually between 1955 and 1960, was up only 1% in the first eight months of this year.

A new round of wage hikes could add to inflationary pressure in 1962. But this effect may be somewhat offset by the current drive to get tax evaders on the tax polls through a partial amnesty on payments of back taxes. A possible income tax increase next year would help, too. These tax measures are in line with goals of the U. S.-Latin American economic program, the Alliance for Progress.

The government is determined to avoid devaluation during the rest of Lopez Mateos' term, ending in 1964. But it may be fighting a losing battle. Despite this year's leveling off of inflation, the rise in wages and prices over the past seven years has already wiped out the export advantage that Mexico obtained from the last devaluation in 1954. During the same period, the cost of imported machinery has risen 22%.

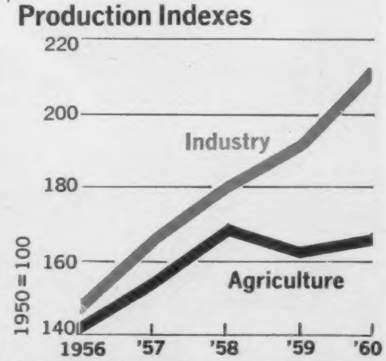
Nationalization. Government officials now privately admit that nationalization reached a peak of absurdity when the government took over a pair of movie theatre chains in 1960. But there are still a couple of likely candidates for government ownership: the ailing domestic airlines and possibly the telephone company. The government already owns one airline, but there's a chance it may take over the other two (in one, Pan American holds a minority interest).

The push for Mexicanization of foreign-owned companies—that is, transfer of stock control to private Mexican hands—has eased in recent months. But it's still official policy, implemented through a variety of incentives and pressures. Sooner or later, U. S. companies will have to adapt to it, though they'll still be able to retain operating control of their affiliates.

Some are already making the adjustment. American Smelting & Refining Co. and other big mining companies are negotiating sale of majority control to Mexicans. Among manufacturing companies, du Pont is a leader in Mexicanizing; it's now a minority shareholder in three Mexican affiliates.

Agriculture. With a million new mouths to feed every year, agriculture is one of the weakest spots in the economy. Food production climbed rapidly from 1950 through 1958, then stalled. Mexico may get a loan from the Inter-American Development Bank next year to open up the rich coastal plain of Tabasco. It may also acquire loans from a variety of sources under the Alliance for Progress for developing roads, irrigation, and electricity in Yucatan and other areas.

Production Indexes



Data: Nacional Financiera © Business Week

In business abroad

BW

France and U. S. move forward in race to produce supersonic jet transport

Here's the latest on the race to produce the first supersonic jet transport [BW Dec.2'61,p41].

Unofficially Sud-Aviation, the French airplane manufacturer that plans to have a Mach 2 transport in the airlanes by 1968, **has set the price for the Super Caravelle at $7-million.** Seat-mile operating costs are expected to be as low as present jets—if not lower. Moreover, Sud estimates that the Super's break-even point—the point at which development costs are paid off and the company starts raking in profits—will be 80 planes. The Super has a potential market of 250.

Meanwhile, Sud's announcement helped to prod the U. S. **Early this month, the Federal Aviation Agency confirmed plans to accelerate its timetable for a U. S. Mach 3 transport.** Now, flight testing will begin in 1967, two years ahead of schedule, with first deliveries by 1970. This compares with Sud's schedule of flight testing by 1965 and delivery by 1968.

FAA's decision to accelerate its program makes the stakes in the race even higher than before. For one thing, **a faster U. S. plane with an updated delivery time will eat into Sud's expected market.** Also, some U. S. manufacturers are apprehensive that too much haste may botch the job. Mach 3 plane will entail entirely new concepts in airframe construction and metallurgy—problems not faced in Mach 2 flight. The fear is that haste may create flaws that would require costly redesigning and cause delays in delivery —thus leaving the entire supersonic market to Sud.

Red China's purchase of British planes is first such deal outside Communist bloc

British Aircraft Corp., Ltd., last week reportedly sold six Vickers Viscount series 800 turboprops to Communist China—the first modern Western planes to be bought by that country—for an estimated $9.8-million.

The contract stipulates that no U. S. equipment is to be installed in the planes. Peking also took an option to buy six more Viscounts.

Although the sale took more than four months to negotiate, London business circles have known for nearly a year that **Peking is taking a more flexible attitude toward buying Western—but not U. S.—capital goods.** A recent memo, circulated secretly in London, describes the rivalry that has grown between Moscow and Peking and goes on: "The consequence of this may well be a broadening of the spread of China's international trade, and a willingness to accept credits from non-Communist countries which Peking has consistently refused to consider until the cereal purchases this year. Credits will also be required if China decides to purchase capital goods from the West, and now that the ice has been broken by the cereal purchase [in Canada and Australia] the way may be open for significant changes in the nature of our [British] trade."

Although a storm of disapproval in the U. S. is expected, the **contract for British planes is the first break in Peking's practice of buying only Russian aircraft.** The political possibilities that may open up because of this break are being debated eagerly in London.

Rambler bets that it has key to Europe's taste in autos

American Motors Corp.'s Pres. George W. Romney is convinced that while the U. S. consumer buys smaller and smaller cars, the European's taste will run to bigger cars. Within a few years, he says, the two markets will converge on a car size—190 in. to 200 in. over-all length —that will be as standard on both sides of the ocean as the Model T once was in the U. S.

This is the corporate thinking behind AMC's first move into the Common Market with a car assembled in Europe. **In a deal signed last week between AMC and Renault, France's largest auto maker, Renault will buy "knockdown packages" of Rambler Classic model components, manufactured in AMC's Kenosha (Wis.) plant for assembly in Haren, Belgium.** Some components—tires, batteries, glass—will come from European manufacturers. The assembled cars then will be distributed through Renault's dealer organization in Europe and Algeria. AMC's European dealers also will be supplied by Renault.

AMC feels that the Classic, at 190 in., is the right size to compete for Europe's market. Although only 2,000 Classics will roll off Renault lines in the first year, this represents about 10% of the European market for this price class (roughly $1,500).

The Renault contract, AMC says, will add about $2.5-million next year to total sales. **By 1962, AMC hopes that its foreign volume—including cars produced and sold in Argentina, South Africa, New Zealand and Malta—will reach 22,000 cars, about 8.5% of total AMC sales.** This year AMC sold 7,500 cars overseas.

New competition for Malayan car market

Prosperity is turning Malaya into a fiercely competitive automobile market, with West Germany and Japan making inroads into Britain's traditional lion's share.

Despite a heavy 25% import duty, **West German car imports to Malaya in 1960 rose 57% over 1959 to a total of 2,769 units. Japanese imports, starting from a smaller base, rose to 200 units.** Meanwhile, British imports, protected by a Commonwealth tariff of only 10%, rose 55% over the same period to 6,322.

Although Britain still holds 51% of the market, the feeling is that this advantage will swing sharply when Britain joins the Common Market. Then Malaya probably will tax all car imports at 25%, irrespective of origin, thus depriving Britain of its current competitive advantage.

The fight on mutual fund fees

Setback to industry would be brief even if court cut management charges

Shares of mutual fund managers

	1961 price range Low	High	Current price	Est. 1961 earnings per share	Price/ earnings ratio
Hamilton Mgt.	$15.12	$36.00	$32.00	$1.15*	27
Hugh W. Long & Co.	15.00	28.50	25.25	1.20[2]	21
Investors Div. Services	180.00	310.00	300.00	12.00	25
Keystone	19.00	30.25	29.00	1.45	20
TV Shares Management	9.25	16.50	15.25	.79[1]	19
Vance, Sanders	12.25	23.25	22.00	1.25[1]	17
Waddell & Reed	21.25	48.00	47.25	1.42[3]	33
Wellington Mgt.	15.62	36.50	32.50	1.29[1]	25

*fiscal year ends April, 1962
[1]fiscal year ends Oct. 31, 1961
[2]fiscal year ends Nov. 30, 1961
[3]fiscal year ends Aug. 31, 1961

Data: Business Week

A Delaware court this week heard arguments in another hotly contested stockholder's suit over whether the management fees for mutual funds are excessive. The defendant was Hugh W. Long & Co., sponsor of four funds with total assets of roughly $1-billion; the charge that it is getting too much for overseeing its portfolios was basically the same as those leveled at half-a-dozen other mutual fund advisers.

The decision in the Long case may set some precedents. So far, only one of the 50-odd pending cases has been settled. In that one—involving Chemical Fund, Inc.—the court said it could not rule on whether fees above the industry norm could be judged "excessive." A broader decision could have industry-wide impact, as well as an immediate effect on the publicly held shares of mutual fund management and distribution companies—of which Long is one of the biggest (table).

Whatever the outcome, many analysts, as well as members of the industry, think a shift toward lower fees is inevitable. Some funds have already switched to a sliding scale, and others are likely to follow. Such a switch has an immediate impact on earnings, since management fees are the chief income of many fund companies. But if mutual funds continue to grow, their managers should be able to offset the temporary reduction in earnings.

Insiders. Ever since 1959, when insiders began to cash in on the funds [BW Sep.5'59,p87], investors have sought the shares of management and distribution companies.

When these were most in favor, they sold at very high multiples, anywhere from 25 to 45 times earnings. But they've also sold off sharply when stock prices—and the sale of new fund shares—were in the doldrums, or when a reduction in management fees threatened. All things considered, they have come to be considered as growth stocks, receiving a warm reception from investors. (By law, mutual funds themselves can't invest in such management companies.)

The group's stocks now are selling close to 1961 highs, and some analysts feel that they are fully valued. These analysts suggest, moreover, that some of the stocks are particularly vulnerable if the market should decline next year—or if management fees are cut. But even those bearish on the group for the near term say any sharp decline could offer investors a chance to get in at bargain prices. The 16 publicly held management and distribution companies now run or sell shares in portfolios valued at close to $13-billion, some 60% of all mutual funds assets, and they should participate fully in the industry's future growth.

High multiples. Aside from the sore issue of management fees, the earnings growth of the fund companies appears to justify some high multiples within the group. Hamilton Management Corp., for one, has increased its per-share earnings at an annual rate of about 35% compound over the past five years, and is still doing well. For the first half of its fiscal year ended Oct. 30, the company showed per share earnings of 50¢, compared to 32¢ for the first six months of last year. For the entire year ending next Apr. 30, the company sees at least $1.10 to $1.15 per share. Wellington Management Co., which has had an earnings growth of 28% compounded over the last five years, will show about $1.29 per share this year, against 92¢ a year ago.

The quality of these earnings is also highly regarded. Since mutual funds are a service industry with virtually no plant or equipment, there's no need for new equity that might dilute earnings. There's also little need to retain earnings, so the group—unlike most growth stocks—has a high payout ratio—close to 70% for many companies. (Some of the distribution companies with captive sales organizations retain more to build up their sales organizations. Vance, Sanders & Co., for example, paid out 70¢ last year of 81¢ per share in earnings. This year, it will pay 70¢, plus a 25¢ extra, of $1.25 per share in earnings.

Today, assets of mutual funds stand at nearly $21-billion, up from $15-billion in mid-1960. Over the 10 years ending 1960, annual gross sales of fund shares increased at an average compound rate of 15% per year. Fund assets increased at a 21% compound rate.

Certainly, the industry's rate of growth should be slower now, if only because its base is broader. Increased competition from new funds should bite into the sale of new shares of some established funds; to cite an example, growth stock funds are taking an ever-increasing share of the industry's new sales. But the outlook is still bright, particularly because the funds' growth reflects increasing sentiment toward equity investment. As long as investors lean toward equities, the funds should do well.

Variables. This doesn't mean that analysts give carte blanche to the whole management and distribution group. The companies differ in many ways and some are more vulnerable to stock market declines than others.

For one thing, the income mix of each company varies. Some—includ-

ing Hamilton, Templeton, Damroth Corp., Vance, Sanders, Waddell & Reed, Inc., and Federated Investors, Inc.—derive most of their income from sales commissions. Hamilton, for example, with the industry's biggest sales force—over 7,000 men—gets 70% of its revenues from sales. Others receive most of their income from management fees—either the industry's norm, ½ of 1% of total assets annually, or some sliding scale of fees. (Founders Mutual Fund doesn't charge a management fee. Instead, it receives annual expense fees, which may not exceed actual costs.)

Thus, income will rise or fall depending on three variables—fluctuations in stock prices, sales of new shares, and redemptions. However, management fees, rather than sales commissions, will grow more important as years go by.

New sales rate. Analysts also use other yardsticks to measure potential. A big factor is the rate of new sales, particularly in relationship to total assets. Obviously, the faster new sales are coming in to a small fund the bigger impact there will be.

The volume of contractual—or "front-load"—plan business is another important factor. Once again, the relationship to total assets is important. Sale of contractual plans—where the individual buys shares on a set basis over a set time period—are accounting for an increasing share of the industry's new business, and more funds are now providing them. Keystone Custodian Funds, Inc., in fact, just started a contractual plan for its K-2 Growth Fund.

To the salesman, the big incentive in contractuals is that something like half the commission of the plan's sales charge is paid to him in the first year. To the company, contractuals mean a buildup of deferred assets; unpaid balances and so-called "trial" commissions will flow in for years after the original contract.

Unpaid balances of contractual plans outstanding have been growing at a breakneck pace within the industry. Hamilton—which has 90% of its new business in contractuals—has assets of some $265-million, yet unpaid balances as of Oct. 30 came to $489-million, up 19% from Apr. 30 figures. As Hamilton's sales have increased, the company has noticed a rise in redemptions as a percent of sales—from 18% a year ago to 25% now, but that figure is still below industry averages.

Stability. Contractual plans not only add stability to the management companies, they also reduce sales expenses, since the contract, in effect, perpetuates itself. For this reason, some analysts feel the management companies should have their earnings adjusted to reflect more accurately the industry's potential participation in unearned management fees and sales commissions. As analysts see it, this would result in "much higher earnings" for the fund managers.

Analysts also consider the portfolio composition of the funds in the management company setup—specifically, with an eye to how it might fare in a sharp move of stock prices. Obviously, in a market downturn, the higher the percent in equities, the more vulnerable a fund's assets—and the management fee. By the same token, assets of a balanced fund might not climb as rapidly in a rising market as an all-common stock fund.

Profit squeeze. It's not clear sailing for all the mutual fund companies. Some are feeling the squeeze on profit margins. Others are worried about the eventual sale of variable annuities, which could cut into mutual fund business. In fact, several fund companies have increased their participation in the insurance business. Channing Corp. acquired the Wolverine-Federal group of companies last year, with over $500-million in force. The merger also brought 3,000 more salesmen into Channing's stable. Hamilton Management also has added salesmen through a cross-licensing agreement with Surety Life Insurance of Salt Lake City. Waddell & Reed also should be getting its new United Variable Annuity Fund, Inc. off the ground next year.

Still others may be heading into problems with their new swap funds in which individuals swap tax-free their portfolio holdings for shares in a mutual fund. Over the long run little growth can be expected from these funds. They do mean additional assets—and thus more in management fees, but the funds, while open end, do not have continuous sale of new shares. This means that liquidations are likely, and the big question is whether market appreciation can offset liquidations. This shouldn't be too much of a task in a rising market, but in a declining market it could be well nigh impossible.

On the other hand, the addition of a swap fund to a small fund organization could have a big impact. Federated Investors, Inc., which now manages only some $30-million in assets, is a good example. It will soon register its $100-million Empire Fund for sale, and this could add as much as 40¢ per share for Federated. **End**

Investors eye hearings on bank growth plans

Whether banks plan to grow through mergers, branching, or holding companies directly affects their stock prices. These plans are bound to be affected by current federal hearings

The sharp rise in bank stocks, which have enjoyed a bull market all their own [BW Nov.4'61,p41], shows little sign of letting up. But events in Washington and New York this week again emphasized that the long-run strength of bank shares may be influenced as much by regulatory decisions as by the banks themselves.

At three separate hearings—two in Washington before federal agencies and one in New York before a federal judge—the question of bank expansion came under scrutiny. What methods they use to expand and where they seek new business are in dispute—and can have a direct bearing on bank stock prices.

Some stocks are overpriced because buyers anticipate acquisitions or mergers. Others may be underpriced because investors feel there's little possibility of a deal. These factors recently have pushed stock prices of smaller banks up and down.

Three hearings. While last week's hearings centered on New York banks, the issues involved apply to banks in most other states. The hearings concerned:

- Morgan Guaranty Trust Co.'s plan to form a $6-billion bank holding company with six upstate banks.
- Efforts of the Justice Dept. to pry apart the newly merged Manufacturers Hanover Trust Co.
- A move by First National City Bank to expand into the suburbs by acquiring National Bank of Westchester.

The latter two cases raised few new issues. This isn't the first time Justice has tried to block—or undo—a bank merger.

Major issue. But the Morgan plan—creating the largest bank holding company in the nation—raises an issue that could help set a national pattern. That's whether a bank should expand by using a holding company or by direct branching.

Morgan has little choice. The laws of New York—and 31 other states—specifically rule out statewide branch banking. But New York, paradoxically, allows bank companies to operate throughout the state. Thirty-four other states don't prohibit or even attempt to control these companies.

Critics claim these laws favor holding companies, and they are using the Morgan plan to push their arguments for easing branching laws. They say that anti-branch legislation will be academic in a few years, anyway, if holding companies the size of Morgan's are given free rein. And they argue that only an extensive network of branches from other major banks could offer effective competition to such a holding company.

If New York should ease its branching laws, it would have an important effect on other states. While there's little hope of such a move at present, Morgan's formation of a $6-billion institution blanketing the state with 153 offices, and commanding 16% of the state's banking assets outside New York City, could help stir pressure for change.

Investor interest. Any liberalization will have an immediate impact on bank stocks. Sophisticated investors are buying shares in many of the nation's smaller banks in hopes that they will be bought up by holding companies—at premium prices. However, if these banks had to face direct competition from branch offices of bigger banks, their shares might not look as attractive as they do now.

Thus, many smaller bankers favor retention of strict laws against branching, and continuance of the free operation of holding companies. This insures a good market for their stock, if they are in a promising area and want to sell. And many argue they can give better service to local customers as part of a large banking corporation, than as a unit of a large chain. **End**

Wall St. talks . . .

about Amerada Petroleum, ethical code for mutual funds, Packard-Bell

Amerada Petroleum Corp. just can't kill off the rumors that it's planning to sell off all or part of its assets in an "ABC" deal. No one knows what Amerada's stock would be worth in liquidation, so brokers are having a field day trying to guess, with estimates running as high as $300 a share (the stock is about $120 now). Chmn. Alfred Jacobsen says: "I'm getting tired of denying this nonsense."

Critics say the **proposed new code of ethics** for the mutual fund business falls short of the strong set of commandments promised by industry leaders. According to reports, it takes some positive steps toward eliminating abuses on such things as "free riding" and "window dressing." But critics say the new code mailed to members of the Investment Company Institute doesn't come to grips with many issues, including reciprocal brokerage. Members are to vote on the code, and may strengthen it.

What Wall Street wags have been saying about **"price-loss ratios"** for electronics stocks had some bearing this week when Packard-Bell Electronics Corp. jumped to over $16 a share from $12.75. In its last fiscal year ended Sept. 30, P-B posted a loss of over $11 per share, which brought equity per share down to $2.40 from $13.88 last year.

Butler Mfg. Co., a leading prefabricated builder [BW May27'61,p147], moved up to over 40 in over-the-counter trading this week on news that its earnings are due to climb sharply in its fiscal year ending next September. Butler earned $2.66 a share in fiscal 1961, but analysts are looking for over $5 a share in 1962 if there's no steel strike.

The Bank of America had to swallow some bitter medicine this week in the breakup of the underwriting syndicate in the $100-million California bond issue it won in October [BW Oct.21'61,p167]. There's no sure way of knowing how many bonds were unsold, but underwriters put the figure at $40-million.

In the markets

BW

Stock averages edge upward to new highs, but mixed trading dampens enthusiasm

The yearend rally carried stock prices to new highs this week on most of the popular averages. But the gains were slight despite encouraging business news, and brokers are disappointed that **more stocks declined than advanced over the past week or so.** Some cyclicals —including oils and steels—showed increases, so did the two newly listed Unilever issues.

Most brokers still contend that stock prices will keep climbing into the new year, but some feel the market shows signs of topping out—if only temporarily. There is also concern that tax-minded investors will take gains early in 1962 in order to be in position to absorb losses later in the year if the stock market turns down. **If tax selling is strong it could touch off a setback,** particularly since so many issues are held on thin margins. In fact, some brokers that have customers dealing through Swiss banks report that margin calls could be set off quickly if the market were to turn soft.

New skirmish shaping on Alleghany battlefield as Kirby opposes stock-split plan

Allan P. Kirby, defeated by the Murchison brothers in the millionaires' battle for control of Alleghany Corp. [BW May27'61,p131], appears ready to do battle again. **Kirby, who controls about 32% of Alleghany stock, is opposing the Murchisons' plan to split 10-for-1 the stock of Investors Diversified Services,** Alleghany's prize holding. IDS traded at 295 bid this week, off some 15 points from its high.

Kirby told the Securities & Exchange Commission he feared the Murchisons, who are the second biggest holders of IDS, would make a public offering of Alleghany-owned IDS shares after the split. This, he said, would dilute his indirect interest in IDS, and put the Murchisons in complete control of the investment company.

Stephen Rooth, Alleghany vice-president, counters that Kirby's real aim is to have IDS consider at the same time both the stock split and a proposed recapitalization plan of IDS' voting and nonvoting shares. Rooth contends that the result of the joint consideration would be "that it could take years to effectuate the stock split."

Kirby's move clearly raises the threat of another proxy fight—or the possibility that Kirby may make a tender offer for Alleghany shares in the open market.

Price of silver creeps upward as speculators appear to hold back supply

The price of silver continued to inch up this week. Handy & Harman, leading silver fabricators, raised its buying price to $1.0275 an oz.—equivalent to about $1.03 delivered—the fourth rise since the Treasury stopped selling free silver at 91¢ an oz. two weeks ago [BW Dec.2'61,p102].

But the short-term trend is likely to be irregular. **The trade figures that there's a hoard of 30-million to 50-million oz. of silver held in London by speculators who gambled successfully on higher prices.** In effect, the market is creeping up to test the price at which speculators will unload. If U. S. speculators are involved, which appears likely, this group would be reluctant to sell until Congress decides whether to repeal the transfer tax, which claims 50% of any profit in silver transactions. Meanwhile, profit-taking in shares of silver companies has trimmed their advances. Generally, they are selling a few points below their highs of a few weeks ago.

Green light from ICC stirs interest in Hudson & Manhattan asset play

The long-drawn-out efforts at an asset play in the 5% mortgage bonds of the bankrupt Hudson & Manhattan RR seemed on the verge of success this week. **The bonds, which were selling for less than 50 in 1960, traded over 85 on word that the Interstate Commerce Commission has approved H&M's reorganization plan,** and that the company should be out of bankruptcy within a few weeks. So now the speculators have to decide whether to take profits now—or assume the risk of waiting in hopes of an even bigger killing.

There are three series of H&M bonds now outstanding. Under the new plan, they will be swapped according to a complex formula for a new $10-million bond issue, plus 590,000 shares of a new Class A common, and 59,000 Class B. H&M's existing common and preferred shares will be wiped out entirely.

At present, H&M's principal business is the operation of an aging and highly unprofitable subway line from Newark, N. J., under the Hudson River to Manhattan. But H&M also owns two profitable office buildings over its terminal near the Wall Street financial district. To take advantage of this situation, **the reorganization plan calls for splitting H&M into two parts: a parent real estate company whose stock will be publicly traded, and a railroad company which will be wholly owned by the real estate company.**

What happens to the new A and B shares will depend on two factors:

(1) How much H&M can get for the railroad, which is up for sale to the Port of New York Authority. The first $18.5-million of the proceeds will be distributed, pro rata, among the holders of both the A and B shares; 90% of any additional funds will go to the 59,000 B shares.

(2) Whether a fight develops for control of the real estate company. H&M has a prime location, and the yield from property could be raised substantially if the old buildings were torn down and a new skyscraper erected.

Personal business

December 16, 1961

Why physical exercise can help you

Planned exercise is a necessity for any hard-working executive who wants to keep healthy. Top medical specialists say this—and even Pres. Kennedy last week reminded Americans that they neglect physical fitness. Yet most executives past 40 never take the warnings seriously.

Tied up with the amount of physical exercise you get are a trio of common troubles—heart, weight, and tension:

- **Regular, moderate exercise helps safeguard you against heart ailments.** Dr. Paul Dudley White, for one, emphasizes this point. He says sedentary living is downright dangerous when carried too far.
- **Exercise can increase appetite and, at the same time, cut down weight.** Harvard studies show that the average executive can burn up 500 to 600 calories an hour through even moderate physical activity.
- **Exercise is the best natural weapon against tension.** Tension, as many physicians see it, can be a real detriment to executive health.

Slowing up old age

A daily routine can alleviate some of the general symptoms of aging that affect men. This is true even if you're up in your sixties.

Middle-aged men with sedentary habits can improve their general physical capacities by 25%, according to studies by Dr. Bruno Balke of the Civil Aeromedical Research Institute. Balke proved this in a 10-week course of daily workouts, each 30 to 40 min., of walking and trotting.

Walking to keep healthy

Just plain walking—with steady, rhythmic strides and deep breathing—is the best outdoor workout for a middle-aged man, say most experts. Assuming normal health, you can't overdo it.

Dr. Harry Johnson, New York specialist in executive examinations, recommends that as a basic program **you walk at least 15 or 20 min. three times a day.** Besides the physical benefit, he believes you gain a sizable amount of intellectual stimulation.

He also suggests a daily 5-min. routine of setting-up exercises. But you destroy the benefit, he says, if you do it as a chore—take it easy and keep in a relaxed state of mind.

Have fun, don't fret

Taking it easy—while exercising—is highly important.

In favoring golf as an ideal exercise, **the experts caution against letting competition get in the way of enjoyment.** Dr. William Shepard, former medical director of Metropolitan Life Insurance Co., warns that a "do-or-die" attitude about the game amounts to a "serious disadvantage" for men past their youth. **Swimming is excellent for the executive,** says Shepard—but it must be regular, two or three times a week.

One warning all the specialists stress: **If you're a typical desk man, don't suddenly become an avid weekend athlete.** Daily exercise, regular and moderate, is what gives long-lasting benefits.

Machine-made exercise

Special exercise gadgetry isn't really needed. But some equipment may give some variety to your routine. Battle Creek Equipment Co. (Battle Creek, Mich.), Healthways, Inc. (Los Angeles), and MacLevy Associates (New York) are leading companies that make a quality line of rowing machines, exercise tables, steam cabinets, vibrators, and such.

One unusual gadget on the market lets you do your walking indoors; it's the "Health Walker" (Battle Creek, $220), a sturdy treadmill machine. If you want to install a small "gym" in a corner of your office, it takes only 32 sq. ft., says the Executive Furniture Guild. And all you need are two vertical floor-to-ceiling poles, 36 in. apart, with one horizontal crosspiece—for pulling and chinning exercises. Stainless steel poles, installed, cost around $100.

Christmas gifts—champagne and Burgundy

A fine champagne or a red Burgundy wine makes a good "business" gift.

The great red Burgundies are **Le Chambertin** (Napoleon's favorite, with a deep, rich red color), **Romanee Conti** (the king of Burgundies), **Richebourg** (full-bodied), **Les Musigny** (more delicate), **La Tache** (robust), **Clos de Vougeot** (a distinct bouquet), and **Le Corton** (Voltaire's favorite).

Of all the vintages currently available, 1955 is the best; '52 and '53 are both good but fast disappearing. The '57 is mostly above average. The '59 Burgundies now on the market are generally the lesser ones; the great ones won't be in full supply until spring.

Champagnes are vintage or non-vintage. Non-vintage is usually of high uniform quality year after year, since the blender can take the best of any year. A vintage champagne is a blend of wines from a certain crop, resulting in a distinctive wine, from year to year.

Exceptional years now available for drinking are '52, '53, and '55. Outstanding champagne houses: Moet & Chandon, Taittinger, Perrier-Jouet, Roederer, and Bollinger.

Cigar smoke—and sweet smells

Although Havana-made cigars are now just about impossible to buy in this country, **you can still get all-Cuban-leaf cigars made in the U.S.,** with many prices up 10% to 25% over last year. Some top brands are **Garcia y Vega, Gold Label, Corona, and Don Sebastian.**

The new perfumes this Christmas: **Millot's Insolent,** a very sweet floral fragrance ($30 oz.); **Gres' Cabochard,** a fresh and lasting scent ($25 oz.); **Nina Ricci's Capricci,** light and floral ($37.50 for 6.7 ozs.), and **Rochas' Madame Rochas,** a heady, very sweet fragrance ($25 oz.).

Probably the most expensive perfume is "Ai" (Japanese for love). It sells for $65 an oz. New this year it contains oils and exotic ingredients from Tibet, Africa, and France. "Ai" parfum de toilette is $50 for 9 oz.

School days

How An Ivy League College Decides on Admissions, by Katherine Kincaid, gives an inside look at the competitive race to get into top colleges, based on observations and interviews at Yale (W. W. Norton & Co., $2.95). A new paperback, **How to Get Higher Marks in School,** by Harry Shefter, is sensible, down to earth, for your high school youngster (Washington Square Press, 60¢).

Pension plans: An employer has several choices in deciding details of how to contribute to a Treasury-qualified pension plan [BW Nov.4'61,p153]. According to one system, his contribution is limited to 5% of payroll. But using other methods, the company can be substantially more generous—contributions of 25% or 30%, or more, are not uncommon.

Hotter bidding for new plants

Expansion of industrial help in New York State could touch off a new wave of competition among states to lure industry. Some schemes are controversial

It didn't get much attention among all the election news, but on the same day last month when New York State voters elected officials, they amended the state constitution to permit the state to help finance new or expanded industrial plants.

In enabling the state to lend as much as $100-million, New Yorkers threw a big hat into the nationwide campaign by most states to lure—and keep—industries. New York's action will be felt all the way to California. States that now offer inducements (table) will wonder if they are doing enough to meet New York's competition. States that now offer none will consider adopting some.

Kinds of help. As the table shows, lures are not confined to any area, and they may take a variety of forms:

Property tax exemption. A state may have a law permitting a city, county, or other unit of government to exempt new plants from property taxes for a specified number of years.

Bond issues. A city or county may float a bond issue to raise money to build a plant for lease to a company. It may issue general obligation bonds—that is, backed by the credit of the city or county—or it may issue revenue bonds backed only by the prospect of income from the leasing of the plant.

State assistance. A state may lend money to a community development corporation that builds a plant for lease, insure the mortgage on a plant, or help industry in other ways.

Development credit corporations. These are private corporations, created by special legislation, in which a state's businesses buy capital stock and to which a state's lending institutions are permitted by law to commit lines of credit.

Is need clear? You can get a good argument not only over which type of bait works best for the state or for the manufacturer but also over whether any such incentives are needed at all.

States that haven't felt the urge may contend that "sound" companies don't want "giveaways," but this hardly squares with the facts. It may be true that some big companies waive their rights to tax exemptions or that fly-by-night operators seek out the best deal, but you can find some of the nation's largest oil and chemical companies taking advantage of tax exemptions, and any number of other blue-chip concerns occupying plants that were built with state loans or bond sales.

How much influence? It's more relevant to ask how much such bait influences a company's decision on where to locate. A survey of Southern plant managers by Dr. Thomas P. Bergin of Notre Dame, for instance, puts "financial aid" almost at the bottom of the list among location factors—although it does rank "availability of buildings" high. Financial aid was over-shadowed by such reasons as access to markets and raw materials and the supply, cost, and degree of unionization of labor.

Studies such as Bergin's and the experience of industrial development men suggest that most companies do not locate in a given city or state primarily because some financial incentive is available. But, on the other hand, such incentive may swing a decision if all other factors are equal.

Meeting competition. It's the pressure of competition among neighboring states, therefore, that persuades state administrations to put incentives on the books. Thus, this year, New York and West Virginia are going into state loans to compete with the successful Pennsylvania Industrial Development Authority, and Kansas, Missouri, Nebraska, and Oklahoma are following Arkansas into bonds.

New York's new program, however, will have an impact not only in bordering states but farther afield as well. That's because it also was designed as a defensive measure against further losses to Southern and other distant states. Other old industrial states that are concerned over similar losses, such as Michigan, may be persuaded to follow New York's example.

I. Tax exemptions

Of all the incentives, the oldest and most controversial is the property tax exemption.

Although some states such as Rhode Island and Alaska (when it was a territory) did not provide for exemptions until the late 1950s, most exemption laws are many years old.

They have not been widely adopted during the recently intensified quest for industry because they are controversial. They deny a city or county the revenue from a plant whose coming means an increase in expenditures for water, roads, and the like for the plant and its workers. Even the added taxes collected as a result of the plant—such as the taxes on workers' homes—do not make up the difference, critics contend. Moreover, they add that the burden of servicing the new plant is, unfairly, shifted to older taxpayers.

Not so widely used. All the shouting would suggest that this practice is widespread. Actually, as the table shows, general exemptions—as opposed to those for specific industries —are allowed in only a few states.

In none of these are they more important than in Louisiana, with its continually expanding complex of oil and chemicals. In the 25 years since the state, parishes, and municipalities have been allowed to grant property tax exemptions (except on land) for 10-year periods, they have exempted $2.6-billion worth of new plant investment. Companies that took advantage included giants: Standard Oil of New Jersey, Allied Chemical, American Cyanamid, Dow, Grace, Wyandotte, U. S. Rubber, Kaiser, Ethyl, Shell.

II. Bond issues

Bonds came into the picture in 1936 when Mississippi enacted its famed BAWI (Balance Agriculture With Industry) Law to permit cities

The bait that states offer industry

	Property tax exemptions	City and county bonds for facilities		State financial assistance	State-chartered private development corporations	Special features
		General obligation	Revenue			
Alabama	✓	✓	✓			Emphasizes tax exemptions, bonds
Alaska	✓			✓		Unique program of 90% state loans
Arkansas		✓	✓		✓	Bonds are the big thing
Connecticut				✓	✓	New 90% plant mortgage insurance
Delaware	✓			✓		State backs local groups' bonds
Florida			✓		✓	New statewide corporation formed
Georgia			✓	✓		Enabling act needed for state loans
Illinois			✓	✓		State can build plants. Bonds untried
Kansas			✓			Using bonds to match nearby states
Kentucky	✓	✓	✓	✓	✓	Only one with all baits
Louisiana	✓	✓				Leads all states with exemptions
Maine				✓	✓	First with mortgage insurance
Maryland	✓	✓			✓	Development loans starting
Massachusetts					✓	Development corporation big, active
Mississippi	✓	✓	✓		✓	Pioneer in general obligation bonds
Missouri		✓	✓			Use of bonds just beginning
Nebraska			✓			Bond law awaiting court test
New Hampshire				✓	✓	State powers are broadest of all
New Jersey					✓	Corporation loans around $700,000
New Mexico			✓			Cities' broad powers controversial
New York				✓	✓	Loan potential: $100-million
North Carolina					✓	Development corporation ranks third
North Dakota		✓	✓			Has added general obligation bonds
Oklahoma			✓	✓		New program of state loans
Pennsylvania			✓	✓		Most successful lending authority
Rhode Island	✓			✓	✓	Done well with mortgage insurance
South Carolina	✓				✓	Many firms waive tax exemptions
South Dakota					✓	Loans help diversify economy
Tennessee		✓	✓			Bonds are the main device
Vermont	✓		✓	✓	✓	Mortgage insurance just adopted
Virginia					✓	First loans from corporation
West Virginia				✓	✓	New state authority making loans
Wisconsin			✓		✓	Bonds only for land acquisition

Note: Inducements listed above are on the books, but may not have been utilized. List does not include states without any financial inducements or states where development corporations have been authorized but not yet organized.

Data: Business Week

AUTOMATIC MACHINE PACKAGING

AVISTRAP goes automatic. This is the new, completely automatic Avistrapper machine. Two models available strap packages ranging from 6" x 6" to 36" x 36" or equivalent cross section. Model AVM-1 shown during 8-month field test, in the shipping department of a large publisher, is strapping cartons and bundles of books for overseas mailing.

Simple. To strap carton, operator places it on Avistrapper table against yoke.

Safe. AVISTRAP is applied and sealed at pre-set tension by pressing foot pedal.

Speedy. One operation does it. No adjustment for different-sized packages.

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New machine-strapping convenience . . . added to new strength and safety. Now you can use AVISTRAP economically on a wider range of packaging jobs. You can operate a safer packaging line, and give your customers packages that are safer to handle and easier to open.

AVISTRAP will actually hold a package together through shocks that break comparable-width steel strapping. And since AVISTRAP is made of high-strength Avisco® rayon, it cannot cut hands, and will not sliver or lash out if broken. It is easily removed from packages, and causes no waste-disposal problems.

Automatic Avistrapper machines can be adapted to apply AVISTRAP in widths from ¼" to ¾", and can be custom-built to fit your packaging line. Avistrappers cost less than comparable steel strapping machines, and an Avistrapper runs four times as long on one 80-lb. AVISTRAP coil than a steel strapping machine with a 100-lb. coil. Local service is available in all major industrial communities. Write for descriptive bulletins or to arrange a demonstration.

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and counties to build plants by selling general obligation bonds.

During this quarter-century, 260 referendums have been held in Mississippi to approve $81.2-million worth of bonds for large concerns such as Ingalls Shipbuilding Corp. and Borg-Warner Corp. and for many smaller companies.

On the bandwagon. Other states have copied the general obligation bond scheme—North Dakota as recently as this year—but none has gotten as much mileage out of it as Mississippi.

Many more states—and Mississippi itself, in 1960—have turned to revenue bonds. They have done this for two main reasons:

Philosophy. Pledging the public credit to the benefit of a private enterprise may not be regarded as in the public interest.

Practicality. Cities and counties come close enough to hitting their debt limits in borrowing for sewage treatment works, schools, and other essentials without also borrowing for plants that are not strictly municipal functions.

The small Alabama town of Cherokee, for example, was able to pull in an Armour & Co. fertilizer plant this year by selling revenue bonds totaling $25-million—much more than it could have sold if it had pledged its own credit. Also, revenue bonds usually don't require the lengthy procedure of a referendum.

Revenue bonds. Revenue bond issues have gone over so well in such states as Alabama, Kentucky, and Tennessee that they continue to spread. Kansas, Oklahoma, and Pennsylvania this year enacted legislation permitting them. (Pennsylvania, however, used a different twist in providing for city authorities; Florida and Georgia have provided for county authorities but have rarely used them.)

In New Mexico, the only Western state with such bonds, the program has become somewhat controversial because of the broadness of the cities' powers. Unlike other states where bond proceeds are limited to real estate (in Wisconsin, only to land), New Mexico permits them to be used to buy a company's entire assets, pay moving expenses, etc.

Chance of windfall. While the New Mexico situation is unique, the bond scheme has come in for criticism on broader grounds everywhere, and it may be in jeopardy.

For one thing, the city or county (except in Nebraska) that owns a plant that it leases out does not get tax revenue from the property. Hence, there are the same complaints of unfairness that tax exemptions provoke.

But more important is the theoretical possibility of a manufacturer's making money out of the deal. Here's how it would work: Say a plant costs $500,000. His annual rental payments would be $32,000—to pay off the bonds—but if he deducts the rent as a business expense, it costs him only $15,360. If he buys the bonds himself and, say, they pay 4¾% interest, he has a $23,750 income the first year, and it's exempt from federal income tax. Subtract the rent from that, and he has a profit of $8,390.

It's possible that Congress may remove the exemption from such bonds—particularly revenue bonds—and deny manufacturers the right of deducting rental payments as a business expense in cases where they have options to buy the plant. Efforts to do this have failed in the past, but bond-permitting states fear the war on tax loopholes may make such efforts successful in the future.

III. Financing construction

For a long time, states did almost everything else short of helping to finance plant construction. They have sent emissaries including governors, technical experts, and top-drawer businessmen to knock on doors of prospects in New York and Chicago. They have surveyed natural resources, studied their markets, taken inventories of sites, and exhorted their towns to spruce themselves up. And they have spent hundreds of thousands of dollars on advertising.

Then in 1955, states went into the business of helping, in one way or another, to finance land acquisition and construction when conventional financing was inadequate or unavailable.

The development agencies. New Hampshire was the first, and its Industrial Park Authority has the broadest powers of all. It can prepare sites by putting in roads and sewers, build plants, lend money to others to build plants or, as of 1961, insure the top 50% of a mortgage.

Pennsylvania followed in 1956 with its Industrial Development Authority. PIDA became a model, copied with variations by Kentucky, New York, Oklahoma, and West Virginia. Georgia adopted an amendment creating a similar authority last year, but an enabling act to get it started must await an appropriation for initial funds.

PIDA operates like this: A community development corporation or foundation lands a manufacturer for whom it can build a plant for lease. The development corporation puts up at least 10% of the cost, gets a first mortgage from a lending institution for 50%, and up to 40% from PIDA on a second mortgage.

In five years of operation, PIDA has made loans of $18.7-million on 159 projects costing $60-million.

Raising loan funds. States differ in how they raise the money to make such loans. Pennsylvania, Kentucky, West Virginia get it from appropriations out of tax funds, New York and Oklahoma from the sale of bonds.

The amendment approved in New York last month, for example, permits the state to sell $50-million worth of bonds backed by its full faith to make loans in areas of high unemployment. It can sell another $50-million of revenue bonds for projects anywhere in the state.

Some states, however, can't or won't borrow or appropriate money on such a scale. They have found a way to be helpful, at minimum cost, through insurance of borrowings.

Maine began the 90% insurance of industrial mortgages in 1957 and has since then insured some $4.8-million. Rhode Island followed in 1958, but has insured $12.3-million worth. Connecticut and Vermont, as well as New Hampshire, enacted such insurance this year.

New wrinkles. Different wrinkles began this year in three states.

Alaska created its State Development Corp. to make loans for 90% of the cost of a plant, with banks participating in the rest. The corporation is to raise its money by selling debentures, of which the manufacturer in each case must take 5%.

Delaware, instead of insuring mortgages, wants to guarantee the bonds of community corporations that build plants. Here, too, the manufacturer would have to buy 5%.

Illinois created the Industrial Development Authority, which itself will build plants for lease in areas of labor surplus. It will be able to borrow $5-million—or 10 times the $500,000 it got in appropriations—by selling revenue bonds.

In a number of cases where community development corporations borrow from the state, they may be able to get further help from the federal government. In areas eligible for loans from the Area Redevelopment Administration—there are such areas in 46 states—they will be able to borrow up to 65% of the cost of a plant from ARA if money is not available elsewhere. In cases where they build plants for small enterprises, they will be able to get up to 80% of the cost—or $350,000

—from the Small Business Administration for machinery or working capital.

IV. Credit corporations

Opposition to the use of public funds or credit—whether federal, state or local—has given rise in some states to the development credit corporations.

Maine started it in 1949, followed by 17 other states. Laws providing for them are on the books in several other states where they have yet to be organized.

No matter what their name, all 18 corporations have certain things in common: They are created by action of a given legislature, instead of by a corporation charter; they are able to sell their stock to businesses and individuals and to obtain pledges of loans from lending institutions based on ratios of their capital and surplus.

The pattern is for the corporations to be able to lend out 10 times their paid-in capital stock, but New York's has an alternative limit of $50-million (it has lent $16.5-million, far more than 10 times its capital stock of $430,000).

Flexibility. In helping to make credit available to those who cannot get it otherwise, the development credit corporations are more flexible than public or other private agencies. They can lend for working capital, inventories, or debt retirement, as well as for buildings.

But they have not been viewed with universal enthusiasm. Some corporations have been accused of being too stingy, or forgetting that the word "development" is in their name. "Our bankers," said one state official, "are more conservative collectively when they sit on the corporation's loan committee than they are individually."

On the other hand, other state officials—particularly in farm states, where industrial loans are a relatively new experience—found quite the opposite. They discovered their bankers were becoming more tolerant of such loans once they became familiar with them.

Of course, it isn't all a matter of attitude. Some handicaps are beyond the lenders' control. For one thing, the interest such a corporation can pay is not always attractive enough to a lender. For another, the corporations have had trouble selling stock.

Some development corporations have also been able to make their dollars go farther by borrowing matching funds from the Small Business Administration. **End**

These companies make news, working with aluminum...

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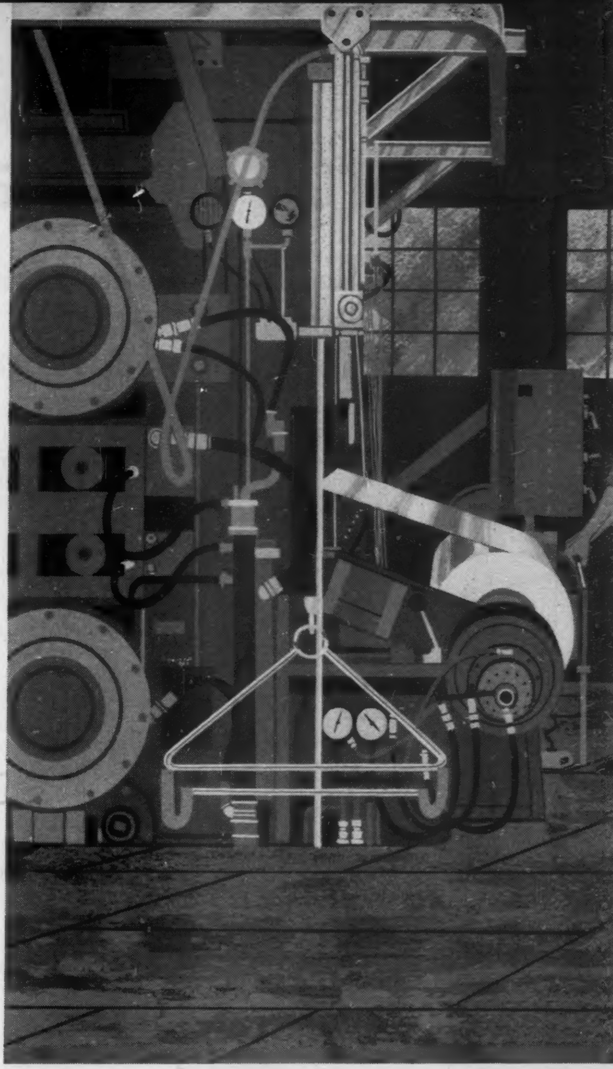


Johnston Foil turns problem into product in 5 minutes. Recently one of its customers called this St. Louis Division of Standard Packaging Corporation with an emergency problem. They had his order for coiled aluminum sheet on the mill five minutes later. This is the kind of service you can expect when you place an order with an independent aluminum fabricator.

American Art Metals makes urban renewal an easy job... relatively inexpensive, too. With headquarters in Atlanta, this aluminum-components manufacturer shows store and building owners how run-down properties can be made beautiful almost overnight with aluminum. It is one of the nation's largest producers of high-quality aluminum doors, windows and store fronts.

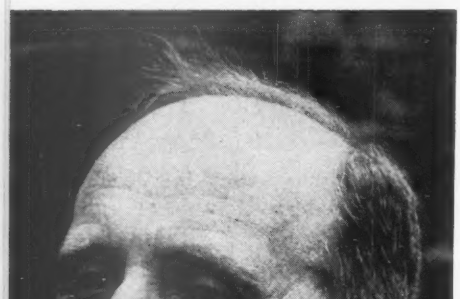
ECONOMICS

Long-run worry about U.S. growth

In his new book, Simon Kuznets concludes that a low rate of savings in face of strong demand for capital over the next 30 years may act as a drag on the economy

Economists—and economic policymakers—have the perpetual problem of deciding whether to worry about the short run or the long run. Most U. S. economists—like U. S. track stars—have been short-distance men, especially since the Great Depression and John Maynard Keynes' dictum: "In the long run, we are all dead."

An exception to the rule is long-run man Simon Smith Kuznets (picture), Harvard economics professor, former president of the American Economic Assn., and indefatigable toiler on the research staff of the National Bureau of Economic Research [BW Jul.22'61,p58]. It was Kuznets who played the leading role in developing the U. S. gross national product system of accounts in the 1920s and 1930s. And it was Kuznets, more than any other, who over the years has exhumed and put in order the statistical facts of U. S. economic history. Throughout, his aim has been to get at the long-run forces behind the growth of nations—and to put economics itself on a quantitative basis and so make it more useful and dependable—for short- or long-run analysis and policymaking.



Economist Simon Kuznets bases his predictions on trends he has uncovered.

New work. This week marks the appearance of another major volume by Kuznets—Capital in the American Economy: Its Formation and Financing. This new work—a 664-page volume that the Princeton University Press will publish Dec. 18—will be the seventh and final volume in a series of studies that Kuznets has directed since 1950, with the help of other National Bureau economists.

The first six volumes covered capital formation in U. S. agriculture, manufacturing and mining, transportation, communications and public utilities, and real estate, together with trends in government financing and the role of banks and other financial institutions in the U. S. economy.

Financial support. Heaviest support for this capital formation project has come from the Life Insurance Assn. of America, which has put $420,000 into it. But this constitutes less than one-fourth of the $2-million that the Life Insurance Assn. has poured into basic research during the past 12 years. The man behind this sizable flow of funds to fundamental research on savings and capital formation has been the Life Insurance Assn. research director, James J. O'Leary, a former Duke University economics professor. He tells his insurance industry members that fundamental economic research is valuable "even if there is no tangible evidence to prove it."

Questions and answers. The big questions O'Leary and his life insurance people wanted Kuznets and his National Bureau colleagues to shed some light on were these: What will be the demand for savings in the decades ahead? Are investment opportunities for capital likely to lag behind the rate at which the U. S. economy generates savings—as the prewar and immediate postwar predictors of stagnation contended? Or is there likely to be a deficiency of savings, which will hamper over-all U. S. economic growth?

In his capstone volume to the big National Bureau project, after a painstaking search of trends in many sectors of the U. S. economy since the 1870s, Simon Kuznets gives a simple and forceful answer to these questions: The demand for savings is going to be heavy in the next 25 to 30 years. Investment opportunities for capital are going to be extremely strong; and there is no reason to fear long-run stagnation. However, says Kuznets, an inadequate supply of savings in relation to the strong demands for capital is likely to generate inflationary pressures and—unless policies are adopted to encourage higher rates of saving—future U. S. economic growth will be retarded.

I. Demands for capital

Kuznets bases these conclusions, not on a detailed set of quantitative projections, but on "broad judgments" that he says derive from trends that are "conspicuous and undeniable."

Pressure on people. One great reason the demand for capital will be high in the next few decades, says Kuznets, is population growth. For most of this period, he says, the future members of the labor force and of new family units are already with us. Barring catastrophe, the U. S. population will rise by more than 50% from 1955 to 1985. Actually, Census Bureau projections, which Kuznets used, were prepared in 1955-57, and now look a bit conservative. The U. S. population was expected to hit 180-million in 1961; it has just passed 185-million this month. By 1985, Census expected

it to reach 254-million, and, by 1990, 273-million.

On these projections, Kuznets notes, the U. S. population will be growing faster than in any 30-year period since 1890.

Even more striking than the growth in total population, says Kuznets, will be the growth of that part of the population entering the labor force and forming new families, the 20-to-29-year-old group, which will grow by 91% from 1960 to 1990. As in the past, this heavy growth in the labor force and in families will create heavy demands for machinery and other capital goods with which to equip these workers, and for residential construction (which figures as part of capital formation) with which to house them.

Scientific advances. The second great factor Kuznets sees increasing the demand for capital is the advance of science and technology. Kuznets notes that everyone has been excited about such developments as atomic energy, man-made satellites, and electronic devices, without paying enough attention to their impact on the demand for capital. Says Kuznets, "The science fiction writers have been more correct than the economists."

All signs, he thinks, point to an acceleration in the rate of technological changes in the decades ahead. Scientific disciplines are having a cumulative impact upon each other—physics giving impetus to chemistry, chemistry to physics, and so on. He sees a similar reciprocal effect in developments of pure theory and of technical capacity for experimentation. The number of scientific workers is growing fast, and will boost the rate of innovation. All these factors will add momentum to the demand for capital funds, says Kuznets, especially since "we are at the beginning of another revolution in the supply of industrial power."

Impact on investment. Kuznets observes that, in the past, major developments in the area of power have resulted in prodigious capital investment. Steam power, he points out, was introduced in the 1780s—but it wasn't until the 1880s that its revolutionary impact on the advanced countries of the world began to subside. Electric power, introduced in the last quarter of the 19th century, and followed by the internal combustion engine, produced a series of changes that are still continuing—"though at a slower pace."

Similarly, Kuznets expects developments in nuclear physics, electronics in automation and communications, rocketry, the biological sciences, solar energy, and other fields to "dominate the economy of the next two or three decades."

II. Drains on resources

While such forces are increasing the demand for capital, other forces, Kuznets believes, will be reducing the proportion of resources that this country can allocate to domestic capital formation. For one thing, Kuznets does not expect international tensions to subside in the foreseeable future. These tensions will force the U. S. government to divert resources away from capital formation toward military programs, foreign economic aid, and other cold war purposes. In addition, he expects economic growth in other countries to drain private capital away from the U. S.

At home, Kuznets foresees growing demands upon government to provide health, education, and other services, because of population growth; this, too, he thinks, will draw funds from capital formation.

Are savings adequate? The crucial question, says Kuznets, is whether private savings are going to be adequate to match the prospective demands for capital arising from population growth, technological change, and heavier demands for funds by government. Here Kuznets finds grounds for concern, based on three major trends of the past:

- Net savings have been a declining proportion of net national product. This is true even though personal savings have been a quite steady proportion of disposable income—about 6% to 7%. The reason is that taxes take a proportionately larger share of personal income, leaving less to be saved.
- Though gross national savings have been very steady in relation to GNP over the years (about 15%), net savings have been shrinking. The reason is that a bigger share of gross savings is required to replace capital as it wears out, and less is available to provide new capital for expanding capacity.
- The economic institutions and patterns of social behavior that have encouraged higher consumption rates in the past seem likely to continue. Technological change will stimulate demands for consumer goods—as well as for capital goods. Full employment policies of government and progressive taxation, Kuznets holds, will help limit personal savings. So will international tensions—which increase insecurity and weaken people's will to save.

Kuznets doesn't see much prospect of any great rise in business savings that come from retained earnings; indeed, profits have been slipping as a share of national income. And he has little hope that government will commonly run surpluses rather than deficits; government surpluses add to national savings, deficits reduce them.

III. The prospects

Hence, Kuznets foresees a future—over the next few decades—in which inflationary pressures will continue to persist, interest rates will tend to move up, and growth will be curbed by the unavailability of savings to finance all the investment opportunities that population growth and technological advance will open up. The central policy implication of Kuznets' analysis is that long-run efforts should be made to increase the proportion of income going to savings—for instance, through changes in the tax system to favor individuals or corporations prone to save and invest, rather than to spend on current consumption.

Criticism. Kuznets' findings will be highly controversial among economists. One major charge will be that he stopped his analysis too soon; the book is based on data through 1955. Up to that point, Kuznets' critics will say, the U. S. economy did seem to be suffering from chronic inflation and a shortage of capital. Since 1956, however, U. S. industry has been hampered by excess capacity. Though consumer prices have not been stable, the rate of rise has slowed markedly; and wholesale prices have shown great stability. Hence, it will be argued—now that the "postwar period" is over—that there is more evidence of too high a rate of saving, too low a level of consumer demand.

Reply. To this, Kuznets' reply is that he is talking about long-run tendencies. He would also emphasize that there are long swings in capital formation—which average about 20 years—similar to the business cycle itself. His data suggest that we reached the peak of one of these capital spending cycles in 1950, and that we have been coming down ever since. Presumably some time in the mid-1960s, or sooner, the trend will reverse, and we will be on the upside of a capital spending cycle.

Kuznets—who was born 60 years ago in Kharkov, Russia—is essentially a bull on the U. S. economy. "What," he asks, "is the secret of U. S. success?" His own answer: "Our institutions change rapidly. Bottlenecks in this country don't last too long." **End**

ITT center handles babel of messages

ADX solid state switching exchange uses transistors and diodes to cope with and pass on data from all sorts of different communications equipment. It eliminates relays

The helter-skelter growth of communications technique has evolved great numbers of devices for sending messages and data—almost all of them working at different speeds, with different codes and different formats. Spread-out companies, particularly diversified outfits, have found themselves with a tangle of diverse equipment and no means of pulling it into a single, tight, truly centralized network.

Last week, International Telephone & Telegraph Corp. came up with what it says is the answer: the 7300 Automatic Data Exchange a solid state, stored program switching center (drawing, right). ADX, says its maker, can give any company a central exchange that will receive and forward almost every sort of message or data, regardless of speed, code, or layout. Thus ADX, acting as a traffic cop, can reroute messages that stream in by microwave, telegraph or teleprinter circuit, or by broadband telephone channels hooked up to carry data. All this gabble of data can be sorted and sent to the appropriate office, or to a computer for processing.

Uses. Alfred di Scipio, president of the Information Systems Div. that ITT has just set up to handle ADX, sees the exchange as being very important for auto companies, for example. "They have diffuse communication systems," he says, "and problems of centralizing production control, data processing, purchasing, parts inventory, and the like."

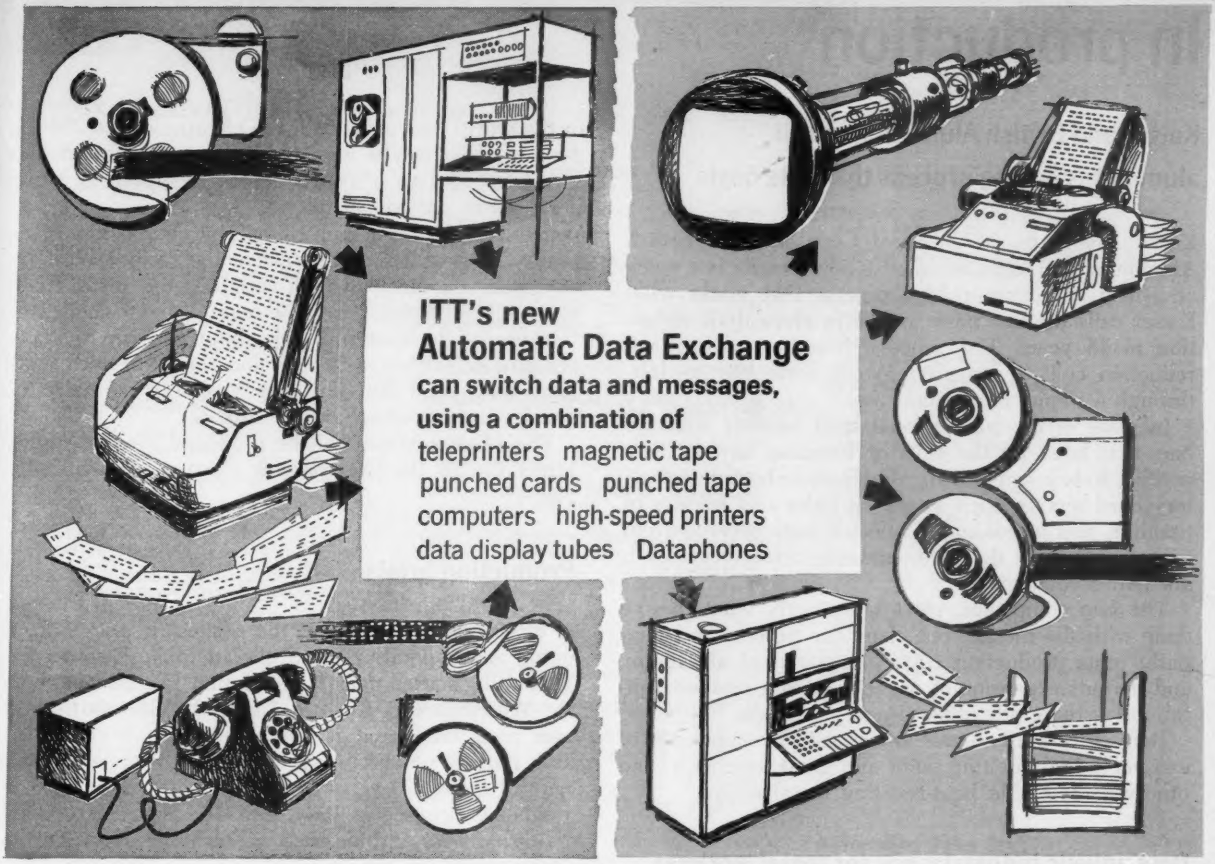
Large chemical companies also look like good customers to di Scipio. ADX could be a central clearing house for all communications between multiple plants, warehouses, and offices—whether they were equipped with teleprinter, punched card, magnetic tape, or whatever. Through the exchange would pass messages on such varied topics as price changes, inventory, delivery schedules, inquiries from customers. Financial, sales, and production data would be forwarded from the field to the central data processing center.

The setup. ADX is designed around a high-speed digital computer, and uses transistors and diodes for switching, instead of the usual electromechanical relays. The switching, on a "store and forward" basis, can handle up to 200,000 words per second—or 3.6-million bits of data per second, as the technicians prefer to say.

The incoming message goes first into magnetic core storage, where its address and priority are checked. Then, if the right circuit is free and no higher priority message ducks in ahead, it flashes on its way. If the circuit is not open, the message is stored in a memory unit until the receiver is free. If the core storage fills up during peak periods, the overflow spills into temporary disk storage. The ADX also has a slower-access magnetic tape unit that keeps a record of special messages. The complete program for all these operations—plus any code and speed conversions that may be cranked in—is logged on part of the magnetic core storage.

ADX can serve as a trouble spotter as well as a traffic cop; it can be programmed to alert the supervisor to such troubles as short circuits. It can even be used as a sort of junior-varsity data processor, handling "coarse grain" processing and some of the lighter assignments. But Robert Hughes, director of division operations, says: "The ADX computer was designed for switching, and is not necessarily as efficient for data processing as other computers designed just for that job."

In theory, ADX could even be programmed for switching voice communication by stepping up the bandwidth to 3,000 cycles, compared with the 150 cycles of a teleprinter channel. Hughes plays down this aspect, though. "This wasn't



our intent," he says. "ADX was designed as a 'store and forward' system and you can't store and forward the human voice."

The market. ITT's first main target for its exchange is teleprinter switching, where it will be bucking the rugged competition of American Telephone & Telegraph Co. and Western Union Telegraph Co. These two companies lease out over 90% of all the teleprinters in the U. S., and they install the switching equipment, as well. ITT hopes eventually to win them as customers. Western Electric makes the switching gear for AT&T, and Western Union's is supplied by several companies.

Of course, ITT can't plug its ADX into the public networks without permission from AT&T and Western Union, but it can install it for customers with private leased wires.

Another customer that ITT has its eye on is the user of Dataphones. These systems send data over telephone lines at about 1,200 bits per second. The Dataphone, though, does not store and forward; if the sender finds the line busy, he has to try again later.

Matter of size. Any company that is big enough to use a teleprinter network is a potential customer for ADX, according to ITT. The company has made proposals for systems up to 125 lines, and could go as high as 500 lines both in and out of the center.

Its first commercial installation of ADX—a State Dept. contract that was announced this week—is much smaller than this, only 16 lines. Hughes gives this warning, though: "If you have a simple, straight-forward teleprinter network without any special, complex requirements, ADX may not be economical until you go above 40 lines or so."

As a rule, the bigger the system the bigger the saving. ITT says that the average electro-mechanical exchange now in use costs about $45,000 a month with 200 lines feeding in. ADX could probably do the same job for 10% less—with greater speed and flexibility—according to Robert C. Murphy, Jr., division director of marketing. And Murphy adds: "By the time you figure in the extra savings on our system from less power, space, labor, and maintenance, ADX might run even 30% cheaper."

These extra savings come from the use of transistors and diodes in place of electromechanical relays. ITT says its solid state components reduce the space and power needed by 10%.

Others in the field. ITT, of course, didn't invent solid state switching, but it has amplified the application. General Dynamics Corp. used electronic switching in a private telephone exchange it installed last month in South Pines, N. C.; another is scheduled to start functioning next spring in the Northeast—on a community-wide basis. Right now, both systems handle nothing but voice.

AT&T got into the act last year when it began testing a solid state exchange at Morris, Ill. [BW Nov. 19'60,p112]. Designed for voice, this system could also handle Dataphone.

Military roots. The idea for an ADX system was cooked up in 1957. In the fall of 1958 ITT got a contract for Project 465-L, a command and control system for the Strategic Air Command. For this, ITT designed a data transmission subsystem for traffic control that was a predecessor of the newly unveiled ADX. And last year, the company decided to produce ADX for the commercial market. **End**

In production

BW

Kaiser and British Aluminum unveil aluminum-making process that cuts costs

Kaiser Aluminum & Chemical Corp. and the British Aluminum Co., Ltd., revealed a few details last week of a new aluminum-making process that marks what Kaiser calls **the first basic switch in electrolytic reduction in 75 years.** The process, based on a modified reduction cell, is supposed to cut costs 10% to 15%, through a stepup in efficiency.

In place of the conventional steel cathode collector bars that hook up the cells or batching cavities in a potline, Kaiser and British Aluminum substitute refractory hard metals, such as the carbides and borides of titanium and zirconium. Collector bars carry current from one pot to the next, and the refractory metals are better conductors.

The two companies won't say exactly what they've done with the metals, but claim the process "substantially" cuts production costs per pound of aluminum, and permits expansion of capacity with a smaller capital outlay than they otherwise might expect.

Refractory hard metals are chemical compounds of extremely high melting point and great toughness, and otherwise resemble heat-resisting metal alloys.

Dow unveils industrial gas for metal working that promises more speed and economy

A new industrial gas that's supposed to be 15% to 40% cheaper to use than conventional fuels in the heating, cutting, and flame-hardening of metals was shown for the first time last week by Dow Chemical Co. at a session with several industrial engineers in Detroit.

Dow claims the gas combines the best features of acetylene and propane. Though acetylene cuts metals extremely fast and has a high heat energy, it is explosive and sensitive to shock. Propane, on the other hand, is less efficient, but safer to use. **Dow says its new non-explosive gas—a stabilized methylacetylene, carrying the trade name MAPP—uses less oxygen than acetylene or propane, and will cut metals up to 30% faster than acetylene and 70% faster than propane.**

The savings come from the cut in labor costs, since the job speed is stepped up, and from the smaller oxygen requirement.

Small but powerful coal cutter may supplant pick in one-man mines

In the heart of Western Pennsylvania's soft-coal country, production got under way this week on a bantam-sized coal auger for small mines in the pick-and-shovel class.

Inventor O. Wayne Martin of the Mighty Miner Co. claims his "Mighty Miner" is the smallest coal cutter in the world and, at $1,095, the cheapest. **The 200-lb., 2-hp. machine can be operated by one man to undercut a face of coal to a 4½-ft. depth.** A second is being designed to cut to 7-ft. depths.

In undercutting, a line of holes is bored along the bottom of a coal face to weaken the face; a blast set off higher on the wall then collapses the seam. Right now, tiny diggings or "low-seam" coal—where the thickness of the seam runs only about 20 in. up to 8 ft.—are usually worked with pick and shovel or with small hand drills. And this coal, says Martin, is normally too fine for use anywhere but in stokers.

The Mighty Miner will be produced for the Mighty Miner Co. by the Connellsville Corp. of Connellsville, Pa.

Production briefs

A 22,000-kw. gas turbine, the biggest in the U. S., is going into operation at a Philadelphia Electric Co. generating station near Philadelphia. The turbine, built by Westinghouse Electric Corp., handles both base and peak loads and is completely remote-controlled. It is started, synchronized, loaded, and stopped from a control room 220 yards from the engine. Fiat, a Westinghouse licensee in Italy, also designed a 30,000-kw. twin-shaft gas turbine, and is installing it in Turino, Italy.

General Electric Co. just subcontracted with Ryan Aeronautical Co. for two fan-in-wing vertical take-off and landing aircraft [BW Sep.9'61,p111]—one chunk of a $6.9-million contract that GE's Flight Propulsion Laboratory received recently from the Army. Ryan's first test flight is targeted for May, 1963. The Army's flight-research VTOL will be designed for forward flight speeds of more than 500 mph.

The country's deepest metallurgical coal mine—this is coal used to produce coke for steel-making—is being sunk in Buchanan County, Va., on Georgia-Pacific Corp. property. The mine, 1,400-ft. down, will be operated by Beatrice-Pocahontas Coal Co., formed jointly by Island Creek Coal Co. and Republic Steel Corp. The mine is part of a vast virgin coal field with reserves estimated at 500-million tons.

A record 19.3-million transistors, worth $27.2-million, were sold at factory outlets in September. So says the Electronics Industries Assn. in its latest month-end summary. This runs nine-month sales to 136.5-million units—almost 9-million more than were sold in all of 1960.

American Cyanamid Co. announced a new synthetic fiber sheet—made of acrylic fiber—that looks like paper, and is actually produced on papermaking machines. Unlike typical wood pulp paper, says Cyanamid, its new sheet picks up almost no moisture, is resistant to most chemicals and all common solvents.

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Trade policy for a changing world market

In telling the annual gatherings of the National Assn. of Manufacturers and the AFL-CIO about his plans for a drastic liberalization of U. S. trade policy, Pres. Kennedy has removed at least one element of uncertainty that had previously surrounded this exceedingly important matter. He declared emphatically that he is not proposing that the U. S. join the European Common Market after the expected accession of Britain.

The Administration's goal, said the President, is to get the two great markets of the Atlantic Community "harnessed together" by the mutual freeing of trade so they will be "capable of pulling the full weight of our common military, economic, and political aspirations." And in reaching this goal, he said, the U. S. must safeguard its close trade ties with Canada, Japan, and the rest of the free world.

Europe in perspective

No reasonable person can quarrel with this kind of goal any more than he can question the support this country has long given to the movement toward European unity. There can be no doubt about the benefits Western Europe has gained from the unity it already has achieved. The six-nation European Economic Community (EEC) has strengthened the principal Continental nations both economically and politically. And now British membership in EEC, assuming it can be accomplished, not only will enlarge the size of this economic union but should enhance its political stability.

The question is how this country can best adjust its trade policy to the prospect that a U. S.-size market will develop in Europe during the 1960s. Certainly, this prospect does not warrant the extreme views that had been expressed recently in this country. On the one side, there have been cries of fright and calls for a Fortress America policy, lest we be overwhelmed by EEC's competitive strength once it is enlarged by the addition of Britain's. At the opposite extreme have been those who feel that Utopia itself would be within reach if we started at once toward a complete merger of the two vast markets on either side of the Atlantic.

Neither of these views is realistic. Both the alarmists and the Utopians are ignoring the facts.

In the first place, the six-nation EEC still is in process of formation and still has serious problems to overcome, not least that of shaping a common agricultural policy. Then, for London and the Six to clear the way for British membership without destroying the Commonwealth will be a difficult and time-consuming problem—and one that should not be aggravated by precipitate U. S. action.

This is not to suggest that we can stand pat with our present trade legislation when it clearly is proving inadequate in tariff bargaining with just the Six. Kennedy undoubtedly is right in telling the NAM and the AFL-CIO that we need to replace the Reciprocal Trade Agreements Act, which calls for item-by-item bargaining, with legislation that would give the President authority to negotiate for concessions from an enlarged EEC on some kind of across-the-board basis. Moreover, it probably would be advantageous if Congress were to make the change during the coming session, since the Trade Agreements Act expires next June.

In the face of the new situation, the sensible thing is for the U. S. to adjust its tariff policy so that over-all trade can flow at least as freely as it does today between the U. S. and Western Europe. This would be in Europe's interest as well as our own. But it certainly does not require the dumping of all our tariffs over several years.

Moreover, if the Administration wants new and more liberal trade legislation next year, it must assure the business community and the Congress that when the time comes for bargaining, U. S. negotiators will get at least as much as they give. In any future tariff bargaining, especially if its goal is to remove virtually all protection, there will be no room for the generosity that we have displayed in the past in our postwar economic dealings with Europe. Finally, our new trade policy must provide some safeguards comparable to the escape clauses and peril point provisions of present legislation to prevent sudden and violent damage to particular industries and regions.

Costs and prices

It does no good for Administration officials to blink the fact that over a wide range of manufactured goods European industry has a definite cost advantage over the U. S., and that this could lead—even if we get full reciprocity in tariff cuts—to a decline in our trade surplus. This could be disastrous unless we are able to overcome the weakness in our over-all balance-of-payments position, overburdened as it is by our disproportionately large military and aid expenditures.

No one should have any doubt that our feet will be to the fire in any movement toward freer trade. The Administration must demonstrate that it is fully aware of this fact. If it does, it will stand a much better chance of getting this country to respond constructively to the economic challenge that is posed by the development of a vast new economic union in Europe.

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